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Essays on Financing and Governance of Social Enterprises

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"The way business has operated in the last 50 years must be disrupted because we will not survive as a society or a planet if we do not tear down the walls that compartmentalize economic, social and environmental activity."

Pamela Hartigan, Director at Skoll Centre for Social Entrepreneurship, Saïd Business School, University of Oxford

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List of Abbreviations

B Corp	Benefit Corporation
CIC	Community Interest Company
e.g.	exempli gratia
et al.	et alii
EMES	Emergence of Social Enterprises in Europe
EVPA	European Venture Philanthropy Association
HLM	Hierarchical linear modeling
i.e.	id est
L3C	Limited Liability Low Profit Corporation
LCA	Limit conjoint analysis
LOHAS	Lifestyle of Health and Sustainability
MLCA	Metricized limit conjoint analysis
p.	page
SVC	Social venture capital
UK	United Kingdom
US	United States (of America)
VC	Venture capital

1 Introduction

1.1 Motivation and research area

"The idea of 'social entrepreneurship' has struck a responsive chord" (Dees, 1998b, p. 1). This statement from 1998 still holds true today. Social enterprises show up frequently in the media (Economist, 2009; Strom, 2010a; Täubner, 2013) and are included in political agendas[1]. In the educational and academic context, social enterprises have become common teaching objects[2] and have experienced an upsurge in research (Hoogendoorn, Pennings, & Thurik, 2010; Sassmanshausen & Volkmann, 2013). In addition, an ecosystem of funding and support mechanisms that encourage incubation and growth of social enterprises has been established in recent years. Funding pots have, for instance, been specifically allocated to finance social enterprises.[3]

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1 Governments are establishing legal systems designed to support ventures with a social mission: In 1991, the Italian government created the first legal form to cater to the needs of social firms – the so called Social Co-operatives (Borzaga & Santuari, 2001). The government of the United Kingdom (UK) followed more than ten years later by establishing Community Interest Companies (CICs) (Smallbone, Evans, Ekanem, & Butters, 2001). In addition, the UK government has introduced a social investment tax relief that gives investors of certain social organizations a reduction in their income tax bill (GOV.UK, 2014). In the United States (US), social enterprises can register as Limited Liability Low Profit Corporations (L3Cs) or as Benefit Corporations (B Corps), amongst others (Esposito, 2013). In 2011, the European Commission has established a Social Business Initiative with the aim to provide a favorable environment for social enterprises by improving their access to funding and by reducing regulatory and administrative requirements (European Commission, 2012).

2 Leading business schools have set up programs and chairs dedicated to social entrepreneurship. Examples include the Skoll Centre for Social Entrepreneurship at Saïd Business School (University of Oxford; http://www.sbs.ox.ac.uk/ideas-impact/skoll), the Social Enterprise Initiative at Harvard Business School (http://www.hbs.edu/socialenterprise/), and the Social Entrepreneurship Initiative at INSEAD Business School (http://www.insead.edu/facultyresearch/centres/social_entrepreneurship/).

3 Big Society Capital, a wholesale social investment bank, has been launched in the UK in 2012. With a capital base of £600 million it aims to build a sustainable social investment market in the UK (Watt, 2012). The German government jointly with the KfW Bank (a promotional bank) established a co-investment model for investors of social enterprises (KfW Bank, 2012). The European Investment Fund has launched a social impact investing fund of funds to enhance the availability of equity funding for social enterprises and to build up market infrastructure for social impact investing (European Investment Fund, 2013).

Literature on social entrepreneurship has been quite motivational to date, describing the phenomenon itself, focusing on conceptual issues and presenting best-practice instructions (Child, 2012). Further scrutiny of the underlying characteristics and intricacies of social enterprises (models, activities, etc.) is now due in order to better understand their mode of operation, derive key success factors and embed their models within categories of established organizational practices, amongst others. In the social entrepreneurship domain, which is loaded with rhetoric and enthusiasm, scholars take an important role in critically assessing competing claims and in comparing these claims to accounts of observed reality. This is particularly relevant, as various actors in the social entrepreneurship domain are promoting self-legitimating accounts of what constitutes social entrepreneurship (Huybrechts & Nicholls, 2012).[4]

The dissertation at hand focuses on financing and governance of social enterprises. This introductory section serves to motivate the research area. First, the key concepts are briefly defined and an insight into industry statistics is given. Second, the emergence of social entrepreneurship is linked to broader social, economic, and political developments. Third, the double bottom line approach of social enterprises is highlighted as their major distinguishing characteristic from traditional organizational forms. Based on a brief review of existing literature on social entrepreneurship, the research questions are derived in section 1.2.

Within the field of social entrepreneurship, social enterprises constitute the operating entities and social entrepreneurs represent their founders and also often their primary actors (European Commission, 2012). Broadly defined, social enterprises provide goods or services to solve a social problem not tackled effectively so far (Mair & Marti, 2006). In order to do

[4] Capital providers, for instance, heavily focus on earned income strategies within their definition of social enterprises (Huybrechts & Nicholls, 2012). Others include too many non-entrepreneurial efforts within the definition, which might obscure the kernel of true social entrepreneurship (R. L. Martin & Osberg, 2007).

this, social enterprises leverage market-based mechanisms and thus pursue a double bottom line consisting of social and economic goals (Austin, Stevenson, & Wei-Skillern, 2006; Bagnoli & Megali, 2009; Certo & Miller, 2008).[5] While the social enterprise label has not existed for a very long time, the practice of social entrepreneurial activity is far from new (Hoogendoorn et al., 2010; Roberts & Woods, 2005). According to Nicholls (2006), the term 'social entrepreneur' was first used in 1972 by Banks, who applied it to express the idea of employing managerial practices to address social problems (Banks, 1972). Friedrich Wilhelm Raiffeisen, a pioneer of rural credit unions and cooperative banks from the 1860s, and Florence Nightingale, who revolutionized hospital conditions during the Crimean war in the 19th century, are two examples of persons from the past that we may label as social entrepreneurs (Achleitner, 2007a; Bacq & Janssen, 2011). The most prominent social entrepreneur nowadays is Muhammad Yunus, an economist and entrepreneur, who received the Nobel Peace Prize in 2006 for the microcredit model of the Grameen Bank. The Grameen Bank provides small loans to poor people (mostly women) without requiring collateral in order to enable them to pursue entrepreneurial undertakings.[6]

Simultaneous to the increasing importance of social entrepreneurship (Light, 2008), an ecosystem of funding and support mechanisms has emerged to encourage further development of the social entrepreneurship field: recruitment agencies for jobs in social enterprises[7], scholarships that offer experienced managers the possibility to volunteer for a

[5] Some refer to a triple-bottom line of social, environmental and economic goals. It is acknowledged that social enterprises might tackle social and/or environmental issues. In this dissertation social and environmental goals are subsumed under one bottom line.

[6] See Bornstein (1997) for a detailed description of the model of the Grameen Bank.

[7] See, e.g., talents4good (http://www.talents4good.org).

social enterprise[8], a financing agency that supports social enterprises in raising growth capital[9], funding consultancies similar to research and rating agencies in traditional capital markets[10], and probably most important, new types of capital providers that specifically target social enterprises[11]. Pioneers in the social investment arena are social venture capital (SVC) investors (Michler, 2006), who transfer concepts of the venture capital (VC) industry towards funding social enterprises. First mentioned by Letts, Ryan, and Grossman (1997), who asked what foundations could learn from VC investors, a growing number of organizations are applying the SVC approach these days. In comparison to traditional foundations, SVC investors support fewer enterprises over a longer period of time often with a larger amount of money covering not only project-related but also overhead expenses. They apply an intense selection process before investing in a social enterprise and are involved as well on a non-financial level, supporting and monitoring the enterprises they are invested in (John, 2006). SVC investors differ with regard to their financial return expectations. So-called venture philanthropy funds are financing social enterprises by providing grants and thus have no financial return expectations. Others use equity, debt, or mezzanine instruments. Their financial return expectations stretch from paying back at least the nominal principal to gaining a certain financial return, which is often below market-rate. In this dissertation, venture philanthropy as well as SVC funds that are using equity and/or debt are subsumed under the SVC term.

8 The I-Cats program of LGT Venture Philanthropy offers scholarships in order to lend experienced managers to selected social enterprises for a certain amount of time (http://www.icatsprogram.com/).

9 See, Financing Agency for Social Entrepreneurship (http://www.fa-se.eu/index.php?&lang=en).

10 See, e.g., New Philanthropy Capital (http://www.thinknpc.org) or Phineo (http://www.phineo.org/).

11 Nowadays, there is an entire funding sector for social enterprises that contains social investment funds and social stock exchanges, amongst others (Achleitner, Heinecke, Noble, Schöning, & Spiess-Knafl, 2011b).

It is challenging to derive comparable and reliable industry statistics on social entrepreneurship or social investing since the definitions do not correspond to a particular legal form. However, there have been some initial efforts to capture the mere size of both fields. According to estimations of the Global Entrepreneurship Monitor, 3.3% of the population in Western Europe is working in the context of a social enterprise (Terjesen, Lepoutr, Justo, & Bosma, 2011). The European Union estimates that a quarter of all new enterprises in Europe constitute social enterprises (European Commission, 2012). In the United Kingdom (UK) the number of social enterprises is said to exceed 55.000 (equating to 5% of all businesses) with aggregated revenues of more than £27 billion (Atkinson, Tuohy, & Williams, 2006; Spear, Cornforth, & Aiken, 2009). A study on social entrepreneurship in Germany included over 1.700 social enterprises in its survey (Scheuerle, Glänzel, Knust, & Then, 2013).[12] For the United States (US) it is estimated that social enterprises generate revenues of $500 billion and account for 3.5% of the total gross domestic product (Thornley, 2012).

The SVC market has also been growing over recent years. Total SVC fund investments in Europe have already surpassed the mark of a €1 billion (Hehenberger, 2012). In 2010, the invested volume of SVC funds worldwide exceeded $500 million (Nicholls, 2010a). Over the period from 1993 to 2008 the annual growth rate of SVC funds accounted for 15% in the US and for 22% in Europe (Scarlata & Alemany, 2012). In addition, it is quite likely that usage of the SVC approach is even more widespread as many organizations that do not explicitly use the label apply it. Those include foundations, corporate philanthropy, and public policy initiatives (Buckland, Hehenberger, & Hay, 2013). The European Commission provides, for

[12] The study also included entrepreneurs that founded own initiatives within established welfare organizations (so-called social 'intrapreneurs').

instance, €91 million to mobilize capital for social investment. The largest part (€41 million) is invested in SVC funds via a social impact investing fund of funds (Spiess-Knafl & Jansen, 2013).

Overall, current discussions on social entrepreneurship and SVC can be attributed to a broader movement that has been gaining momentum in recent years: "The distinction between the business and social sectors is becoming increasingly fluid" (Villis, Strack, Yunus, & Bruysten, 2013, p. 3). In this regard, three developments have been observed. First, traditional business companies are incorporating social impact aims in their strategies and are shifting parts of their activities towards the sphere of the social sector (O'Toole & Vogel, 2011). Examples include corporate social responsibility activities, shared value concepts, and socially responsible investment funds (Sabeti, 2009). Second, non-profit organizations as well as public programs are increasingly adopting strategies and behaviors from the business sector, such as a focus on earned income strategies, accountability and measureable impact (Hwang & Powell, 2009). Third, new organizations are emerging that aim to blend the best of the business and social sectors by pursuing hybrid value chains of social and financial return expectations. Besides social enterprises, these include intermediaries such as impact investment funds that explicitly aim to create a positive impact beyond financial returns[13] or social impact bonds that pioneer new ways of combining public and private funding[14]. All three developments highlight organizational practices at the fringes of traditional sectors. Due to the growing number of such types of organizations and initiatives, some observe the

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[13] According to estimations, the social impact investing market will exceed $500 billion up to $1 trillion in the next decade (Freireich & Fulton, 2009; O'Donohoe, Leijonhufvud, Saltuk, Bugg-Levine, & Brandenburg, 2010; Saltuk, Bouri, Mudaliar, & Pease, 2013).

[14] In the structure of a social impact bond, private investors fund social enterprises that employ a preemptive approach. When the social enterprises succeed in achieving their mission and thereby generate savings for public spending, investors are paid from the savings to the taxpayer. If the social enterprises are not successful, the taxpayer does not pay anything (Bolton & Savell, 2010).

emergence of a fourth sector beyond the business, social, and public sectors: a new organizational landscape that integrates social purposes with business methods (Battilana, Lee, Walker, & Dorsey, 2012; Sabeti, 2009).

The reasons for these developments are manifold and stem from several mutually reinforcing social, economic and political factors (Dacin, Dacin, & Tracey, 2011; Hoogendoorn et al., 2010). The inequality in wealth distribution is increasing, widening the gap between rich and poor (Piketty, 2014; The World Bank, 2007). Amongst other things, this leads to an increasing bulk of people at the bottom of the pyramid (M. Martin, 2013) and social business models might be suitable for developing markets at the bottom of the pyramid.[15] In addition, so-called ‘Lifestyle of Health and Sustainability’ (LOHAS) customers are looking increasingly for ethically produced goods and services (M. Martin, 2013; Scheuerle et al., 2013).[16] On the side of governments, one can observe fewer interventions by the public sector (Hoogendoorn et al., 2010) and cuts in public spending for social purposes (Danko, Brunner, & Kraus, 2011; Dees, 1998a). In addition, governments have increased their accountability requests. There has, for instance, been a shift away from grants to contracts with performance-based monitoring by the government (Chen & Krauskopf, 2012; S. R. Smith & Lipsky, 2009). At the same time, the sheer number of non-profit organizations competing for scarce pots of funding has grown substantially (Salamon, Sokolowski, & List, 2003). According to Boschee and McClurg (2003), the number of non-profit organizations has more than tripled over the past twenty years. Philanthropic capital providers are nowadays

[15] An example of such a model is Grameen Danone Foods. In order to fight malnutrition in Bangladesh Grameen Danone Foods was founded in 2006. The joint venture produces a yoghurt enriched with important nutrients, which even the poorest should be able to afford. Thereby, Grameen Danone Foods affects people's lives by improving their health. Further benefits exist: The milk for the yoghurt is purchased from small farmers and additional employment opportunities are created, e.g., sales women distribute the yoghurt door-to-door and receive a 10% commission (Grameen Creative Lab, 2009).

[16] The market for socially and environmentally conscious consumer products and services is said to account for almost $300 billion (www.lohas.com/about).

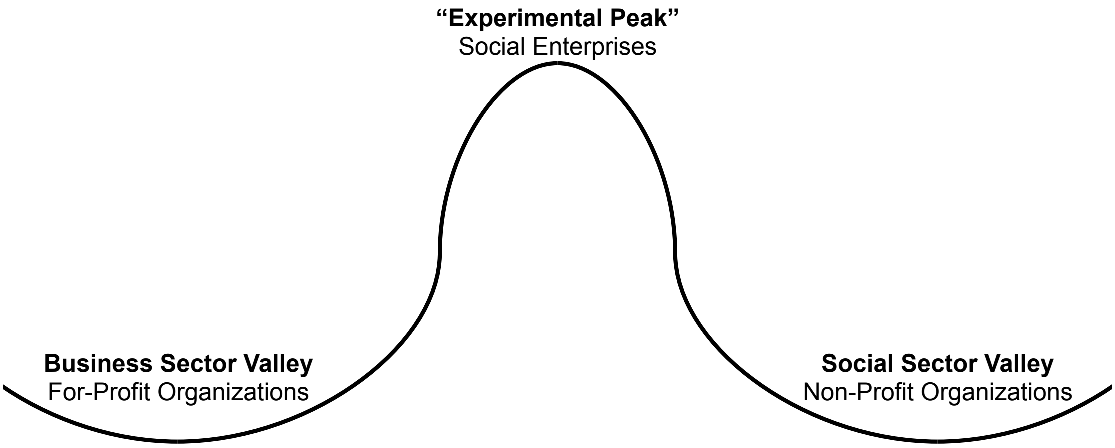
often of a younger age (Anheier & Leat, 2006), dedicating more time and resources to philanthropy earlier in their lives (Economist, 2006; Reis & Clohesy, 2001). They are challenging old assumptions about charitable giving. For instance, they apply pressure on their funding objects to demonstrate accountability through the efficient use of financial resources, increased professionalization and the measurement of achieved impact (Villis et al., 2013).

As social enterprises pursue a double bottom line consisting of social and financial return expectations (Alter, 2004; Boschee & McClurg, 2003), they constitute hybrid enterprises operating at the interstices of the business and social sectors (Battilana et al., 2012; Dart, 2004). Put differently, the organizational identity of social enterprises is dualistic as compared to traditional entrepreneurship where organizational identity is singular (Austin et al., 2006; Certo & Miller, 2008). The following examples illustrate this. Discovering Hands developed an innovative way to employ visually handicapped women with their highly developed tactile sense to detect the early signs of breast cancer. The company pursues a social mission in two respects. First, it contributes to improved prevention and detection of breast cancer and second, it employs visually impaired women. The costs are covered by public and private health care funds. Thus, the operations of Discovering Hands are financially sustainable without relying on subsidies. Another example, Aravind Eye Hospital, provides eye care services and only charges those who can afford to pay, using the revenues generated to cross-subsidize services below costs for low-income customers. Aravind Eye Hospital behaves like a social sector organization when it comes to customers with very low income, but like a business sector organization in the way they treat customers with a higher income. Organizations that operate at the interstices of traditional sectors constitute an exciting area for research, an area where novel approaches might be developed (Stark, 2009). By combining approaches from multiple spheres, hybrid enterprises act truly entrepreneurially (Stark, 2009).

Scholars in the social entrepreneurship arena have long acknowledged the double bottom line approach (Certo & Miller, 2008). However, they have not problematized it sufficiently so far (Child, 2012). Too often the "idealized view of social entrepreneurs as change agents in the social sector" (Santos, 2012, p. 336; see also Dees, 1998b) has been propagated without critical reflections of the problems that might emerge due to the double bottom line approach. Problems emerge if there is a trade-off of social return and financial return. In such cases, there is a danger of a mission drift (Heister, 2010; Spear, Cornforth, & Aiken, 2007). Over its lifespan, a social enterprise might get too focused on economic goals at the expense of social goals. Financial return may no longer be seen as a means of maximizing social impact but rather as a means of its own. It is also problematic if a social enterprise puts too much emphasis on its social goals and thereby jeopardizes its financial sustainability, possibly leading to entrepreneurial failure (Cornforth, 2013; Spear et al., 2007). In addition to a potential internal conflict, external stakeholders might pull a social enterprise into different directions within the field of social and financial returns, since pursuing a double bottom line implies being accountable to multiple stakeholders with diverse interests (Jones, 2007). Recently, a mission drift occurred in the Indian microfinance industry. A microfinance institution increased its interest rates after going public in order to fulfill the interests of their investors. As a consequence, the institution was accused of reckless lending practices that led to extreme cases of over-indebtedness, potentially causing borrower suicides (Drexler & Noble, 2013; Thirani, 2012).

Due to the double bottom line approach some ask whether the social entrepreneurship model can ultimately present a stable equilibrium (Strom, 2010b) or whether social enterprises are doomed to fail or drift into one or the other of the neighboring fields of the business and social sectors. A picture of a two-sided valley (see Figure 1-1) is drawn where organizations of the business and social sectors are situated in a stable position around the bottoms of both valleys and social enterprises are located at the top of the hill in a rather tense equilibrium where relatively weak forces might induce a drift into one of the valleys (D. R. Young, 2012). This danger is also reflected in one of the main assumptions of the shareholder value approach: pursuing parallel goals will always induce a conflict of interests (S. D. Young & O'Byrne, 2000).

Figure 1-1: The topography of social enterprises
This figure is based on D. R. Young (2012).



The dissertation being presented here is based on empirical studies tackling research questions that emerge due to the overlapping of sectorial boundaries and the interplay of social and financial return dimensions. The main body (chapter 2) consists of three separate studies, each of which displays an individual academic essay. By conducting quantitative empirical studies, this dissertation seeks to contribute to move social entrepreneurship research to the next level in which the focus shifts from anecdotal evidence towards knowledge based on larger data sets. It is essential to extend 'wisdom of experience' by rigorous empirical research in order to identify frameworks and formulate principles that apply beyond the scope of a specific topic area or setting (B. B. Anderson & Dees, 2006). Generalizations based upon limited data sets are problematic due to the diversity of purposes of social enterprises and the variety of settings in which they operate (B. B. Anderson & Dees, 2006). For instance, lessons learned from fighting malnutrition in Asia might not be transferable to launching a work integration enterprise in Berlin. Another reason for the need for more rigorous research is that legitimating efforts, which are based solely on cases and narratives, are vulnerable to attacks by skeptics (Huybrechts & Nicholls, 2012). The presented studies provide relevant implications for social enterprises and their capital providers as well as for further important stakeholders such as governmental authorities that are shaping legal structures.

1.2 Development of research questions

This section has two major goals. First is to classify this dissertation within existing literature on social entrepreneurship. Therefore, a brief overview of the literature, including the definitional context, is given. Second, three research questions are developed and the related research gaps are highlighted.

There appears to be widespread scholarly interest in the topic of social entrepreneurship. Since 1985 the number of publications continuously increased and it became a 'mega-trend' when it doubled from 1999 to 2000 (Sassmanshausen & Volkmann, 2013). Despite the sheer number of scholarly contributions, scholars still regard the field of social entrepreneurship research to be in a stage of infancy (Danko et al., 2011; Zahra, Gedajlovic, Neubaum, & Shulman, 2009). The majority of articles deal with phenomenological and theoretical reflections, definitions, conceptualizations, and best practice reports (Kraus, Filser, O'Dwyer, & Shaw, 2014). A considerable amount is dedicated to definitional issues in the arena of social entrepreneurship (Hoogendoorn et al., 2010). Still, scholars have not arrived at clear and stringent definitions (Light, 2008). The fuzziness around definitions might in part be explained by the fact that the field of social entrepreneurship research is highly fragmented across disciplines, which all approach the topic through their own lenses.[17] In addition, scholars from different geographical origins have followed different approaches in defining social enterprises (Defourny & Nyssens, 2010; Kerlin, 2006). This is in part explained by different conceptions of capitalism, the government's role, and social welfare (Albert, 1991).[18]

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[17] Disciplines include: economics, sociology, political science, public health, and psychology (Dacin et al., 2011; D. R. Young, 2009).

[18] Tackling and solving social problems is, for instance, often seen as a governmental duty in the German welfare state, while it is not in the US, where the focus lies more upon self-responsibility as well as engagement by the broader community (Bacq, Janssen, & Kickul, 2011).

One element all definitions agree upon is the social value proposition, the explicit and central social mission of a social enterprise (Alvord, 2004; Austin et al., 2006; Hibbert, Hogg, & Quinn, 2002; Robinson, 2006). This is reflected in the broad definition of social enterprises given in the previous section: social enterprises address a social problem by leveraging market-based mechanisms (Austin et al., 2006; Certo & Miller, 2008). There is disagreement in the literature on the specification of market-based mechanisms as well as on further definitional elements. This dissertation does not aim to provide yet another account of existing definitions,[19] however, to give the reader an overview, the evolving schools of thought are mentioned.[20] The following definitional elements are relevant within the context of this dissertation: unit of observation (entrepreneur or enterprise), earned income strategies, profit distribution, governance, and legal form.[21] The *Social Innovation School* which has been developed in the US focuses on social entrepreneurs as individuals who are activists of social change that come up with innovative means to tackle social problems (Dees & Anderson, 2006). As it does not focus on the enterprise level, it neither refers to earned income strategies or governance, nor does it put limitations on profit distribution or legal form. The *Social Enterprise School*, also developed in the US, describes social enterprises as non-profit ventures employing business methods to improve their effectiveness. In particular, social enterprises are said to generate own income for serving their social mission. As only non-profit ventures are included in this definition, profit distribution is not allowed. Scholars from Europe embed social entrepreneurship research within their studies of innovation in the

[19] See Huybrechts and Nicholls (2012) for an up-to-date reflection on social entrepreneurship definitions.

[20] Overall, three schools of thought emerged. Some include a fourth school, the *UK approach*, which corresponds to the legal set-up of CICs. It defines social enterprises as having a primary social mission and as trading within the market. It allows for profit distribution but puts a limit on it. Scholars rarely use the UK approach.

[21] It should be noted that the factors are not entirely independent of one another. Constraints concerning legal form are, for instance, directly related to the permission of profit distribution.

broader social economy and have a strong focus on co-operatives (Nyssens, 2006). The corresponding *Emergence of Social Enterprises in Europe (EMES) Approach*[22] maintains a strong focus on the stakeholder environment and on governance arrangements. It describes social enterprises as enterprises with the explicit aim to benefit the community, as initiated by a group of citizens, as participatory in nature, and as not guided by capital ownership in their decision-making (Defourny & Nyssens, 2008). The focus is upon new legal forms being established to support ventures with a social mission. Profit distribution is allowed but has to be capped. Table 1-1 gives an overview of the positioning of the three approaches with regard to the definitional elements. It also illustrates the approach taken in this dissertation.

Table 1-1: Defining elements across schools of thought

The table provides a summary of the main distinctions and commonalities across the schools of thought and highlights the concept applied within this dissertation via dotted frames. The table is based on Hoogendoorn et al. (2010) and Bacq and Janssen (2011).

	Social Innovation School	**Social Enterprise School**	**EMES Approach**
Unit of observation	Entrepreneur	Enterprise	Enterprise
Earned income	Not emphasized	Prerequisite	Not emphasized
Profit distribution	No constraint	Constraint	Limited constraint
Governance	Not emphasized	Not emphasized	Multiple stakeholder involvement emphasized
Legal form	Non-profit, for-profit, or "in between"	Non-profit	Focus on new specific legal forms

This dissertation observes issues at the level of the social entrepreneur as well as at the level of social enterprises. It is the view of the author that social entrepreneurs institutionalize their undertakings within some form of legal set-up (the social enterprise) in order to

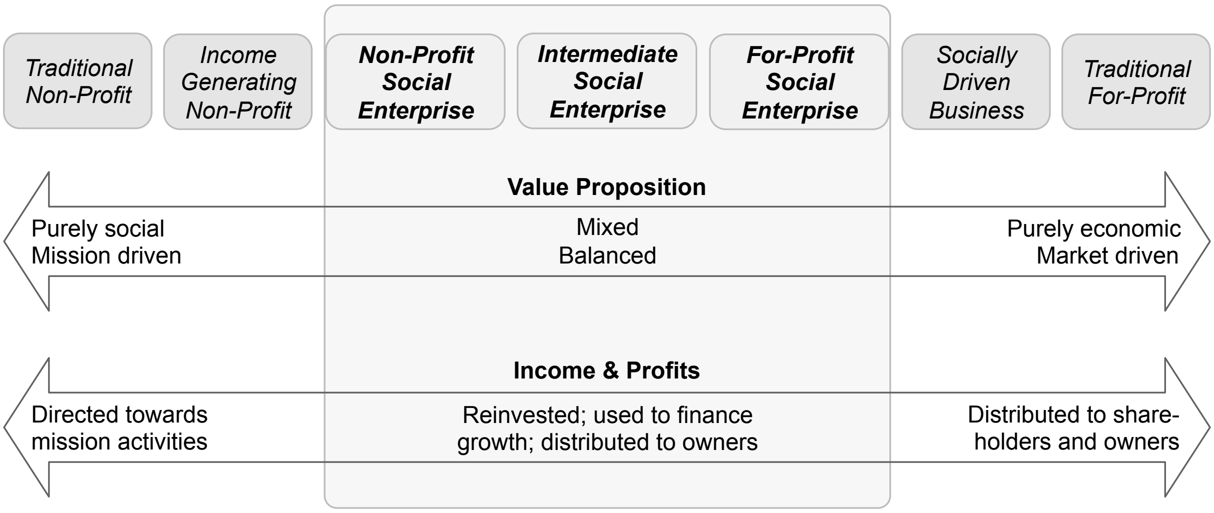
22 The EMES Research Network was founded in 1996. Scholars cooperate to establish a definition that captures the national differences within the European Union. Their aim is to foster emergence and growth of social enterprises (see: http://www.emes.net/what-we-do/).

differentiate their activities from social movements or social activists (R. L. Martin & Osberg, 2007). The generation of earned income is part of the market-based mechanisms employed by social enterprises.[23] Own revenues are important to decrease dependency on external funders and to achieve financial sustainability. Only financially sustainable social enterprises will be able to survive in the long term and thus be able to serve their social value proposition (Scarlata & Alemany, 2012). Profit distribution to owners is allowed but should be capped. Financial return generation should be a means to a social end and thus profits should primarily be reinvested to increase social impact. With regard to governance it is taken into account that social enterprises address and affect various stakeholder by pursuing a double bottom line and by operating across sectorial boundaries. No limitations are put upon the social enterprises studied with regard to legal structure. This is in line with the claim that social enterprises do not constitute a homogeneous group of organizations (Alvord, 2004; Seelos & Mair, 2005). Scholars suggest using an approach based on a continuum with traditional for-profit and non-profit organizations as polar types in order to classify different approaches of social enterprises (Alter, 2004; Dees & Anderson, 2007). This is illustrated in Figure 1-2.

[23] Further mechanisms include hiring professional managers, formalized practices such as strategic planning or independent financial auditing, and thorough performance measurement.

Figure 1-2: Classification of social enterprises

This figure is based on Dees and Anderson (2003) and Alter (2004). The figure serves to illustrate the various types of social enterprises. It simplifies the relationship between the social and financial return dimensions as it assumes a 1:1 trade-off relation between the two.



Apart from articles that are concerned with definitions and conceptualizations, scholars cover a broad spectrum of topics in the social entrepreneurship arena (Kraus et al., 2014; Pierre, von Friedrichs, & Wincent, 2014; Sassmanshausen & Volkmann, 2013). Reviews that classify topic clusters do not agree on one set of categories.[24] It is beyond the scope of this introductory section to mention and classify all topic areas.[25] In the following, topics that have been addressed frequently are classified along three dimensions: individual, organizational, and environmental. Studies concerned with the person of the social entrepreneur – the individual – often address motivating elements, skills and competencies as well as personality traits (e.g., Hwee Nga & Shamuganathan, 2010; Leadbeater, 1997; Sharir & Lerner, 2006; Thompson, 2002). On the organizational level, the following topics have been identified as being covered frequently: impact and performance measurement (e.g., Darby & Jenkins, 2006; Mair & Sharma, 2012), resources of social enterprises (e.g., Achleitner, Spiess-Knafl,

[24] For an overview see Sassmanshausen and Volkmann (2013), who identified 19 reviews on social entrepreneurship research.

[25] For extensive overviews on research topics and areas addressed, see Sassmanshausen and Volkmann (2013), Pierre et al. (2014), and Hoogendoorn et al. (2010).

& Volk, 2014; Royce, 2007), and the simultaneous pursuit of social and financial value creation (e.g., Bacq, Janssen, & Kickul, 2012; Cooney, 2006). In addition, scholars are frequently applying an organizational theory perspective to study social enterprises in recent years. Those studies specifically tackle the hybrid nature of social enterprises operating at the fringes of the business and social sectors (e.g., Battilana & Dorado, 2010; Huybrechts, 2011; Jay, 2012; Pache & Santos, 2010, 2013). At the environmental level, studies are concerned with interactions between social enterprises and their environment and with infrastructure arrangements that support the development of social enterprises (e.g., Chapman, Forbes, & Brown, 2007; Korosec & Berman, 2006).

The topics covered in this dissertation mainly address issues at the organizational level. Sections 2.1 and 2.2 tackle issues concerning financing of social enterprises and thus belong to studies analyzing resources. Both analyze the relationship between SVC investors and social enterprises and therefore also touch on the environmental level. In addition, section 2.1 is also concerned with certain personality traits of social entrepreneurs. In section 2.3 a governance lens is applied to analyze structure and behavior at the organizational level. Section 2.3 takes the hybrid nature of social enterprises explicitly into account and thus contributes to the emerging stream of research that applies an organizational theory perspective to study social enterprises.

On a methodological level, conceptual studies by far outnumber empirical studies (Kraus et al., 2014; Short, Moss, & Lumpkin, 2009).[26] Among empirical studies a qualitative approach is predominant (Granados et al., 2011).[27] Qualitative studies mostly use a case study

[26] Granados, Hlupic, Coakes, and Mohamed (2011) identified 286 scientific papers on social entrepreneurship, of which 91% were either descriptive (20%) or purely theoretical (71%).

[27] Hoogendoorn et al. (2010) identified 31 empirical articles of which 27 are qualitative, 23 using a case study design. Danko et al. (2011) count eleven empirical studies, eight of them applying a case study approach. In

approach which has led to a huge body of research that is mainly phenomenon driven (Mair & Marti, 2006). Cases are often used to exemplify concepts developed on a purely theoretical base. There have been complaints about the lack of quantitative studies which are essential to develop a testable theory (Eisenhardt, 1989b) which is crucial for the progress of a research field. Scholars are concerned about myth busting and enthusiastic optimism based on unchallenged assumptions and therefore call for empirical studies and reality tests to build a more solid knowledge base (Dey & Steyaert, 2012; Huybrechts & Nicholls, 2012). One difficulty for quantitative studies is the unavailability of data. All quantitative studies have to be based on primary data due to the lack of secondary data (Hoogendoorn et al., 2010). Neither databases nor public accounts of social enterprises exist yet. Despite this barrier, empirical research is essential. By showing what works and what does not work in the area of social entrepreneurship, scholarship could contribute to the detection of better ways for solving social problems and thus have a meaningful societal contribution (D. R. Young, 2012).

On a general level, this dissertation aims to broaden the research body on social entrepreneurship and to answer the call for more rigorous empirical research (Kraus et al., 2014; Lundström & Zhou, 2014; Nicholls, 2010b). In the main body, three separated studies are presented, each of them dedicated to a newly raised research objective. The three research questions can be grouped into two topic areas: financing and governance of social enterprises. Both constitute important mechanisms for maintaining or disrupting the positioning of social enterprises at the interstices of the business and social sectors and for balancing social and financial return dimensions (Teasdale, 2010). Put differently, financing and governance are

the study of Granados et al. (2011) only 8% of empirical studies used a quantitative or mixed method approach.

essential mechanisms to stabilize the position of social enterprises at the experimental peak (see Figure 1-1).

To study financing of social enterprises is important because access to capital is essential for the creation and the development of any type of venture (Clarkin, 2014). Often, financing is referred to as the main hurdle for the development of social enterprises (Clarkin, 2014; Scheuerle et al., 2013; Social Enterprise UK, 2011; Täubner, 2013; Tracey & Jarvis, 2007). While social enterprises have access to a broad array of funding opportunities in theory (Spiess-Knafl & Achleitner, 2012), their access to internal as well as external sources of financing is limited in practice. Beneficiaries are, for instance, often not able to pay for the products or services received (Glaeser & Shleifer, 2001) and providers of external capital such as governments are often not prepared to serve the specific funding needs of social enterprises (Heinecke & Mayer, 2012). In particular, there seems to be a funding gap between the start-up phase during which donations and award money might be sufficient to survive and the more mature stages during which traditional capital providers and impact investors are able to invest in social enterprises (Dichter, Katz, Koh, & Karamchandani, 2013; Drexler & Noble, 2013; Heinecke & Mayer, 2012; Milligan & Schöning, 2011).

The first two essays focus on the relationship between SVC investors and social enterprises. SVC investors transfer the concept of VC towards funding social enterprises. They apply an intense selection process in order to detect the most promising social enterprises and provide them with long-term tailored financing. In addition, they pursue a high engagement approach consisting of ongoing support and oversight activities (John, 2006). The funding approach of SVC investors fits both the need of social enterprises for flexible financing and their openness towards business support (Buckland et al., 2013). In addition, SVC investors tap into the funding gap in between the start-up and more mature phases. For growth and scaling activities investments along the scale of \$200.000 up to \$2 million are needed (Milligan & Schöning, 2011), which fits the average investment size of SVC investors.[28]

So far, research about SVC has been quite limited (Achleitner, Heister, & Spiess-Knafl, 2014). Existing studies mainly focus on the evolvement of the field (e.g., number of funds) (Buckland et al., 2013) and on aspects that can or cannot be transferred from traditional VC (Scarlata & Alemany, 2008). In addition, research on SVC and social entrepreneurship has mainly evolved on parallel and separate tracks. In particular, the relationship between SVC investors and social enterprises has not been analyzed satisfactorily. To study their relationship is of high interest. Due to the non-financial commitment they enter into a close relationship for a long period of time. Furthermore, both pursue a double bottom line and might take different positions with regard to social and financial return expectations. This makes a conflict between the two parties due to divergent interests quite likely. Thus, it is interesting to analyze how the relationship between SVC investors and social enterprises comes to be and how their interests are aligned before closing a contract, as well as during the investment phase. Also, the fit of the SVC model with the social entrepreneurship approach has not been scrutinized critically to date.

The *first essay (section 2.1)* addresses the question of how the relationship comes into being and contributes to answer the call for research to better understand the decision rules that SVC investors apply in selecting social enterprises (Austin et al., 2006; Certo & Miller, 2008; Cochran, 2007). Initial studies in this domain observed a broad array of selection criteria that can be grouped within the following categories: social entrepreneur (e.g.,

[28] Spiess-Knafl (2012) analyzed investments of 15 SVC funds and observed an average investment size of €756.850. BonVenture, the first SVC fund in Germany, e.g., finances social enterprises with equity and loans from €200.000 up to €1 million (see: http://www.bonventure.de/de/angebot/voraussetzungen.html).

experience, education), business concept (e.g., innovation, cooperation), targeted market and community (e.g., size, access), social impact (e.g., scale, reach), and financials (e.g., earned income, financing needs) (Heister, 2010; Miller & Wesley, 2010; Scarlata & Alemany, 2009). Scarlata and Alemany (2009) identified the social entrepreneur as the most important selection criterion as he has a pivotal role in achieving the envisioned social impact.[29] Therefore, they call for further research to investigate the particular characteristics of social entrepreneurs that are analyzed by SVC investors. The first essay taps into this black box by presenting a fine-grained analysis of how SVC investors evaluate the integrity of social entrepreneurs. Integrity is defined as being true to one's word even under unfavorable circumstances and as complying with a morally justifiable value system (Erhard, Jensen, & Zaffron, 2010; Pollmann, 2005; Simons, 2002). It is a prerequisite for trustworthiness (Mayer, Davis, & Schoorman, 1995; Parry & Proctor-Thomson, 2002).

For SVC investors it is relevant to analyze integrity due to four major reasons. First, the double bottom line approach of social enterprises involves the risk of a mission drift if financial return is increased at the expense of social return. In addition, an excessive focus on social aspects might endanger the financial sustainability and thus the survivability of a social enterprise. Investors need to assess integrity in order to ensure that a social entrepreneur stays true to its mission consisting of a balance of social and financial returns. Second, traditional mechanisms for aligning interests ex-post such as monitoring or incentives via compensation are less effective in the social entrepreneurship arena than in the case of traditional entrepreneurship due to difficulties in performance measurement. Third, there is no market that assesses the value of social organizations so far and as a consequence, no comparable

[29] There seems to be a similar link in the context of VC as emphasized by MacMillan, Siegel, and Narasimha (1985, p. 119): "There is no question that irrespective of the horse (product), horse race (market), or odds (financial criteria) it is the jockey (entrepreneur) who fundamentally determines whether the venture capitalist will place a bet at all."

numbers exist to do a multiple valuation as done by VC investors (Scarlata & Alemany, 2012). In this context, Scarlata and Alemany (2012) have shown that trust is important for evaluating funding requests by social enterprises. Fourth, articles that explore the personality of social entrepreneurs often describe them as exceptionally innovative, willing to take high risks and as possessing outstanding leadership qualities (Kraus et al., 2014). This gives the impression of some kind of hero entrepreneur without any flaws. However, there are potential negative traits as well. Glaeser and Shleifer (2001) show, for instance, that entrepreneurs might act out of pure self-interest under the pretext of a non-profit structure. Further, Scarlata and Alemany (2012) caution against the potential for 'perks-and-stealing strategies' applied by for-profit social entrepreneurs to maximize their self-interest.

In order to ensure that funds are used for the purpose initially agreed upon, investors need to assess integrity. The essay analyses aspects that SVC investors focus on when evaluating integrity. Internal factors, i.e., characteristics and efforts of the entrepreneur, as well as external factors such as judgments by third parties are considered. The following research question is posed:

(1) How do social venture capital investors evaluate the integrity of social entrepreneurs?

In order to answer this question a conjoint analysis has been conducted with 40 SVC investors from all over Europe. They were presented with the task of ranking constructed profiles of social entrepreneurs on how they would judge integrity. The profiles consisted of five attributes that might influence the assessment of a social entrepreneur's integrity (parameter values in brackets): personal experience (affected, not affected), professional background (mainly social sector, mainly business), voluntary accountability efforts (high, low), reputation (high, not high) and awards received (yes, no).

In the *second essay (section 2.2)*, a change of perspective is undertaken and the relationship between SVC investors and social enterprises is analyzed from the entrepreneur's point of view. To the best of the author's knowledge, the presented study is the first one to assess the perspective of the social entrepreneur in this relationship (an exception being a practitioner-based report by Keystone, 2013). In traditional entrepreneurship literature evidence on the perspective of the entrepreneur towards VC investors is scarce as well (exceptions are Drover, Wood & Fassin, 2013; G. Smith, 1999; Valliere & Peterson, 2007). The second essay analyzes how social entrepreneurs evaluate certain non-financial features of SVC investors. Those include support and oversight activities and the reputation of the investor.

It is important to capture the perspective of the entrepreneur. This applies particularly to the social investment arena. Financing decisions in general are a two-way street and the bargaining position of social entrepreneurs has strengthened. While the supply side of the social investment market is continuously increasing, the number of social enterprises that can absorb this funding is quite limited (Buckland et al., 2013). In addition, anecdotal evidence suggests that social entrepreneurs already have raised concerns about investors employing a high engagement approach such as SVC investors. Social entrepreneurs complain that a disproportionate amount of time is spent on financial statements, and that the selection process is too expensive regarding time and effort invested (Milligan & Schöning, 2011). In addition, the social investor might also induce a mission drift within a social enterprise if the investor is, for instance, pressuring a social enterprise to achieve higher financial returns in order to serve his exit-focused investment style (Milligan & Schöning, 2011). Also, social entrepreneurs do not perceive the non-financial services to be as important as their investors seem to believe. A survey among members of the European Venture Philanthropy Association

(EVPA) showed that 58% of the participating investors judged their non-financial support as even more important than their financial contribution (European Venture Philanthropy Association, 2011), whereas a Keystone survey among portfolio companies of several SVC funds showed that more than 70% of the participants were not even aware of receiving non-financial support. In the cases where social entrepreneurs were aware of it, they judged the utility of non-financial support as rather low (Keystone, 2013). From a researcher's point of view, this gap in perceptions makes it a worthwhile research topic to analyze the fit of the SVC approach and the social entrepreneurship model.

Besides a bias in the perspective taken, previous studies on the relationship between SVC investors and social enterprises lack a clear theoretical framing. The second essay aims to overcome this shortcoming by embedding its analysis within an existing theoretical framework composed of agency theory and stewardship theory. In the essay it is assessed how social entrepreneurs are evaluating certain non-financial features of SVC investors. Those include support as well as oversight activities. Through comparing the perception of both kinds of activities it is aimed to determine whether social entrepreneurs perceive the behavior of SVC investors as driven by agency theory or stewardship theory. While agency theory would emphasize oversight as a mechanism to mitigate agency conflicts (Jensen & Meckling, 1976), stewardship theory suggests that relationships are based upon supportive involvement (J. H. Davis, Schoorman, & Donaldson, 1997). The second essay addresses the following research question:

(2) How do social entrepreneurs evaluate non-financial features of social venture capital investors?

The second research question is addressed by employing a conjoint-based approach. 44 social entrepreneurs were asked to rate profiles of potential investors with regard to investor attractiveness. Their assessment is based on the following attributes (parameter values): business advisory services (many, few), network access (many, few), information rights (strong, weak), control rights (strong, weak), and reputation of the investor (high, not high).

While the first two essays focus on financing of social enterprises, the *third essay (section 2.3)* is concerned with governance of social enterprises, in particular governing boards. Governance is of high relevance in the social entrepreneurship context due to three major reasons. First, social enterprises pursue multiple goals (Mair & Marti, 2006), referred to as a double bottom line of social and financial return expectations. Second, since social enterprises operate across sectors, they are accountable to a diverse array of stakeholders (Achleitner, Heinecke, Mayer, Noble, & Schöning, 2012; Townsend & Hart, 2008). Governance is essential for balancing complex trade-off decisions that result from multiple and often competing goals and from divergent stakeholder interests while safeguarding the mission and overseeing compliance with policies and regulations. Third, social enterprises might carry a legitimacy deficit in the eyes of external observers: they are crossing organizational categories and thus it is not clear which set of rules applies to them (Zuckerman, 1999). Governance is a means to foster legitimacy (Townsend & Hart, 2008). In the context of microfinance institutions, which are mostly considered to constitute social enterprises, governance is seen as the "primary differentiating factor between those institutions that overcome crises and those that do not" (Pistelli, Geake, & Gonzalez, 2012, p. 3).

So far, research on the governance model of social enterprises has primarily looked through theoretical lens (Low, 2006; Mason, Kirkbride, & Bryde, 2007). Low (2006) proposes that social enterprises are more likely to adapt a for-profit governance model with a focus on shareholders rather than stakeholders. In contrast, Mason et al. (2007) argue that both the shareholder approach as well as the stakeholder approach are likely to be important for social enterprises. Bacq et al. (2011) surveyed social enterprises to identify relationships between governing behavior, organizational capabilities, and performance. Spear et al. (2009) have taken an empirical approach in researching governance challenges of social enterprises from the UK. The third essay extends existing literature by empirically analyzing governance arrangements at the organizational level of social enterprises.

In particular, it is analyzed whether and how common sets of behaviors from the anchoring fields of the business and social sectors are reflected in the governance approach adopted by social enterprises. By studying the influence of prescriptions from the business and social sectors, the hybrid nature of social enterprises is taken into account.[30] Existing studies that address the hybrid nature of social enterprises mainly emphasize conflicts arising from the interplay of various sector logics (Aygören, 2014), ask why social enterprises situate themselves in between sectors at all (Battilana & Dorado, 2010), and analyze how they respond to conflicting demands afterwards (Pache & Santos, 2010). What is overlooked is that this operating at the interstices of the business and social sectors also opens up opportunities. An enterprise can, for instance, gain access to a broader set of resource providers and also pioneer new ways of organizing by combining and extending elements of both sectors (Reay & Hinings, 2009). Governance is essential to balance prescriptions from both sectors in a way that unlocks opportunities of novelty and overcomes challenges associated with ambiguity.

[30] Within the essay, social enterprises are classified as a subset of hybrid organizations that do not fit into existing categories or sectors but operate in a context of institutional pluralism (Kraatz & Block, 2008). This allows the authors to link the findings to a broader discussion and to expand the contribution. The wording is adapted accordingly in section 2.3.

In addition, existing studies on the hybrid nature of social enterprises are mainly based on case studies and therefore assume a uniform way of organizing. In the third essay, this methodological bias is dissolved. Instead of looking at social enterprises as one homogeneous group of organizations, it is taken into account that social enterprises might take different positions on a continuum that spans from solely social to solely economic activities (see Figure 1-2). Differences between three subtypes of social enterprises in how they pursue organizational governance via boards are analyzed. Three categories of organizational models are distinguished depending on the identification of social enterprises with the business sector and/or the social sector (non-profit, intermediate and for-profit social enterprises). It is tested whether and how the identification of social enterprises with the business sector and/or the social sector influences attributes and practices of their governing boards. Section 2.3 addresses the following research question:

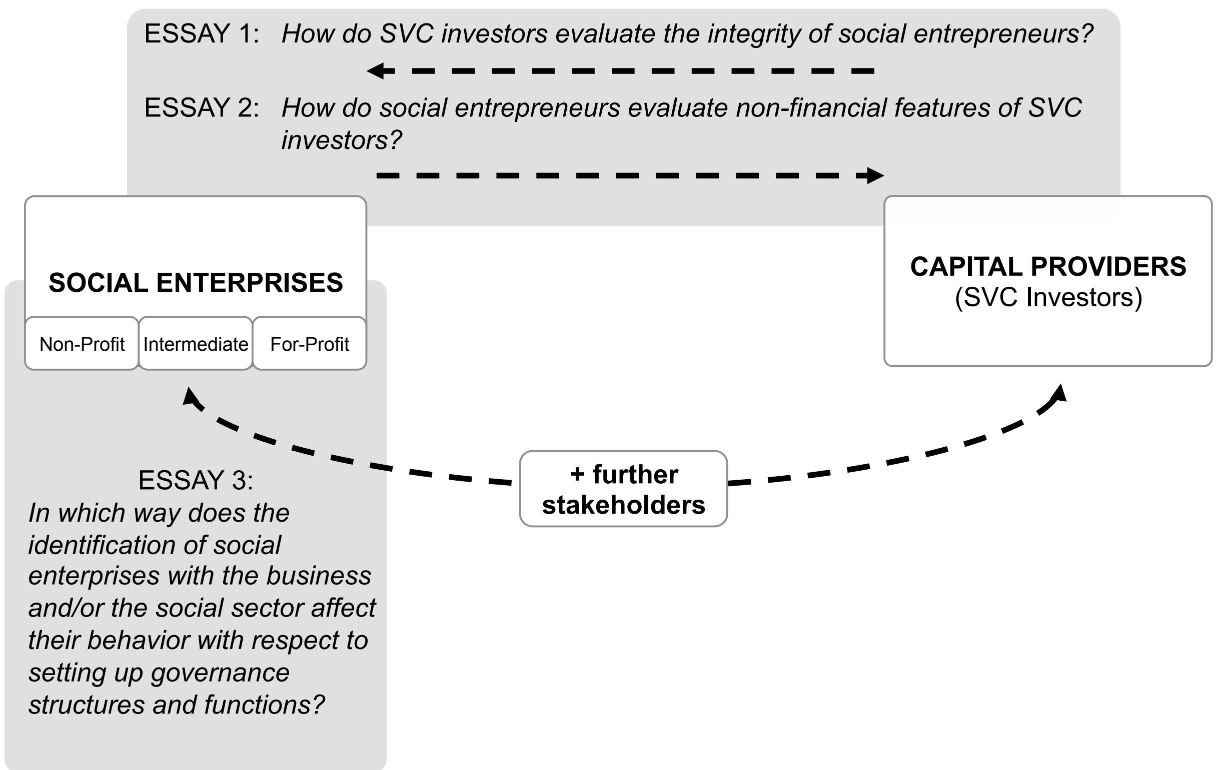
> *(3) In which way does the identification of social enterprises with the business sector and/or the social sector affect their behavior with respect to setting up governance structures and functions?*

In comparison to the first two essays, the third essay takes a rather explorative approach contributing to theory building rather than testing. Survey data from 70 social enterprises from all over the world is used to analyze attributes and practices of governing boards. The findings from the survey are related to debates on hybrid organizations. Different strategies regarding how distinct types of social enterprises cope with their dualistic organizational identity are revealed.

After this introductory section, chapter 2 presents the main body of this dissertation. It is made up of three studies, each of which display individual academic essay and represent a distinct academic contribution. Each section addresses one of the three research questions.

Figure 1-3 serves to highlight the connections between the research questions posed in this dissertation. Section 2.1 and 2.2 analyze the relationship of social enterprises with a particular capital provider, the SVC investor. Section 2.1 tackles the question of how the relationship comes to be and section 2.2 examines how social entrepreneurs evaluate the SVC approach. The third essay (section 2.3) adopts a governance lens to analyze practices at the organizational level of social enterprises. The focus is on governing boards in which capital providers play an important role besides other stakeholders such as the target group. The dissertation closes with chapter 3. Here, the major results of the studies presented in the main body are summarized. Theoretical contributions and practical implications are highlighted and areas for future research are outlined. The dissertation closes with a brief outlook for the interplay of the social entrepreneurship field and the social investment arena.

Figure 1-3: Overview of research questions



2 Essays

2.1 Essay 1 – Disentangling Gut Feeling: Assessing the Integrity of Social Entrepreneurs

Abstract

This essay analyzes how social venture capital investors evaluate the integrity of social entrepreneurs. Based on an experiment with 40 social venture capital investors and 40 students, we investigate how five attributes of the entrepreneur contribute to the assessment of integrity. These attributes are the entrepreneur's personal experience, professional background, voluntary accountability efforts, reputation and awards/fellowships granted to the entrepreneur. Results indicate that social venture capital investors focus largely on voluntary accountability efforts of the entrepreneur and the entrepreneur's reputation when judging integrity. For an overall positive judgment of integrity, it seems to be sufficient if either voluntary accountability efforts or reputation of the entrepreneur are high. By comparing social venture capital investors with students, we show that experience leads to a simpler decision model focusing on key attributes.

Keywords: Social entrepreneur, social venture capital, integrity, conjoint analysis

JEL Classification Code: M13, M14

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2.1.1 Introduction

In recent years, a growing number of social entrepreneurs has emerged around the globe (Achleitner, Heister, & Stahl, 2007; Witkamp, Royakkers, & Raven, 2011). Social entrepreneurs are individuals who try to solve a social problem through an entrepreneurial approach and who pursue a double bottom line consisting of a social as well as a economic goals. A key challenge for social entrepreneurs is to find financial support for their ventures because their access to internal as well as external sources of financing is limited (Heinecke & Mayer, 2012; Milligan & Schöning, 2011; Social Enterprise UK, 2011). Social entrepreneurs often have only limited possibilities to generate income with their organization, as beneficiaries are often not able to pay for the services they receive (Glaeser & Shleifer, 2001). In addition, access to government grants and support has become more difficult in recent years (Miller & Wesley, 2010) and governments are often not prepared to fulfill the specific funding needs of social entrepreneurs. In a survey conducted in 2011 by Social Enterprise UK, 73% of social enterprises replied that cuts in public spending have lead to the decreasing financial health of their organizations and 44% stated that they were hampered by lack of financial support (Social Enterprise UK, 2011)[31].

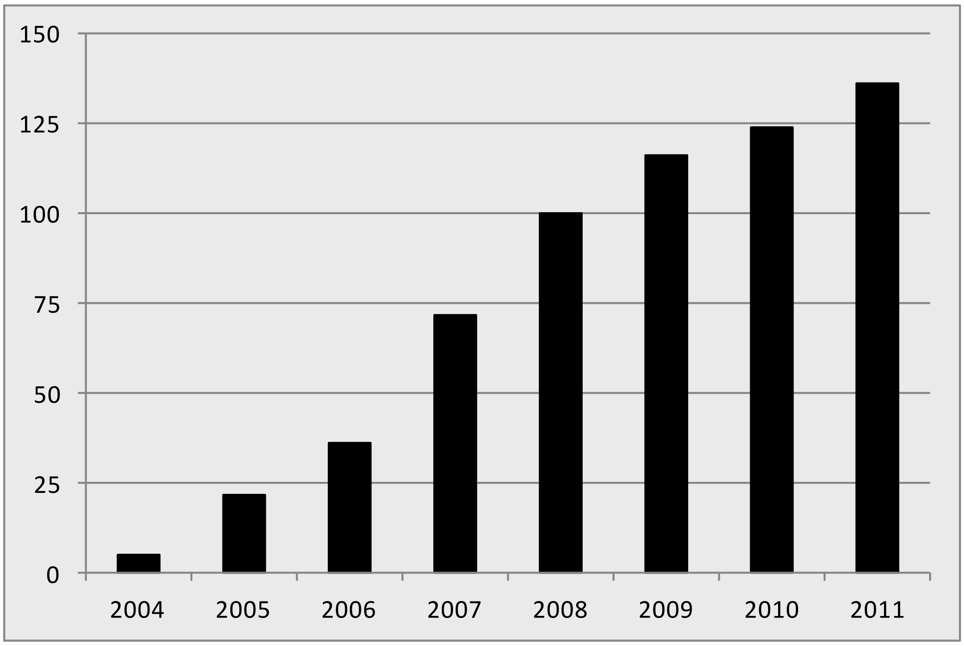
Social venture capital (SVC) funds provide an alternative source of capital for social entrepreneurs. Their aim is to create social impact by providing financial as well as non-financial support to social entrepreneurs (John, 2007a; Scarlata & Alemany, 2009). Over the last ten years, the number of SVC investors has grown substantially. In Europe, the development of the membership numbers of the European Venture Philanthropy Association (EVPA) in recent years portrays the increasing relevance of this form of financing. The

[31] In the Social Enterprise Survey 2011, a total number of 865 social enterprises in Britain were questioned. This represented a response rate of 11%.

number of members has increased from 36 in 2006 to 136 in 2011, representing an average annual increase of 31% (see Figure 2-1).

Figure 2-1: Development of EVPA members 2004-2011

The figure shows the development of the number of registered members in the European Venture Philanthropy Association (EVPA) between 2004 and 2011. The numbers were compiled using annual reports of EVPA.



Despite the increasing relevance of social entrepreneurs (Light, 2008) as well as SVC investors around the globe (Achleitner et al., 2007; John, 2006; Kerlin, 2006), little research has been undertaken so far toward understanding the relationship between these two parties. In particular, it is not yet well understood how this relationship comes to be. According to Scarlata and Alemany (2009), the most important selection criterion for SVC investors is related to the social entrepreneurs themselves, as they are responsible for building a sustainable social enterprise and achieving the long term social mission. Personality traits of the social entrepreneur such as creativity, passion, perseverance or empathy are linked to the success of the social enterprise (Boschee, 2006; Light, 2008; Mair & Noboa, 2006). Particularly for SVC investors as external investors, the integrity of the social entrepreneur is another relevant personality trait (Heister, 2010).

Integrity is important because the pursuit of a double bottom line can lead to the risk of mission drift on the part of the social entrepreneur. Furthermore, monitoring possibilities for investors are limited due to a lack of performance indicators for social impact, inducing high information asymmetries. It is therefore important that the social entrepreneur is loyal and committed to pursuing his social mission after he has received funding from a SVC investor.

Integrity is defined as honoring one's word, acting in accordance with disclosed values even under unfavorable circumstances and on the basis of a morally justifiable value system (Erhard et al., 2010; Pollmann, 2005; Simons, 2002). It may give an indication whether the social entrepreneur is likely to pursue his social mission and the double bottom line in the long term. This notion was confirmed in selected initial interviews we undertook with SVC investors who stated that integrity was important and that they used their experience and gut feeling to judge the integrity of social enterprises.

Our aim is to tap into this black box and to analyze the mechanisms used by SVC investors to assess the integrity of the entrepreneur. In particular, we want to answer the following research questions: What are important aspects that SVC investors focus on when judging the integrity of a social entrepreneur? Are internal factors, i.e. characteristics and efforts of the entrepreneur, or external factors such as judgments of third parties particularly relevant? How does experience influence the assessment of integrity?

We undertook an experiment with 40 SVC investors where they had to rank constructed profiles of social entrepreneurs according to how they would judge the integrity of the entrepreneur. As attributes of the entrepreneur, we used personal as well as professional backgrounds, voluntary accountability efforts, reputation and awards/fellowships. Furthermore, the experiment was conducted with 40 students with academic knowledge in the area of social entrepreneurship to test whether practical experience had an influence on the assessment of integrity.

Our results indicate that SVC investors judge the integrity of social entrepreneurs based primarily on two key attributes: voluntary accountability efforts and reputation. If either voluntary accountability efforts or reputation of the entrepreneur are high, SVC investors evaluate integrity as positive and high enough to consider the social entrepreneur for funding. In contrast, personal experience, professional background or awards/fellowships are less relevant for SVC investors. Furthermore, we show that experience influences the evaluation of integrity. By comparing the results of SVC investors and students, we find that experience leads to a simpler decision model with an increased focus on the two key elements described above.

Our study has important implications for SVC investors and social entrepreneurs. For SVC investors, we provide the first systematic analysis on how integrity is assessed by professionals in the SVC arena. The experts in our sample consistently put great importance on accountability efforts and reputation. SVC investors entering the market may find this insight on the decision-model of their experienced peers helpful. However, we are not able to draw conclusions on the success of this decision-model as we are not able to link our findings on perceived integrity with the actual post-investment behavior of the entrepreneur. Put differently, we are not able to make normative recommendations as to how SVC investors should assess integrity.

Insights into the decision-making process of SVC investors are also relevant for social entrepreneurs because SVC investors provide an alternative source of funding for them. Our results highlight the advantages of voluntary accountability efforts for social entrepreneurs through the self-induced improvements in transparency and outside control of the social enterprise. We show that SVC investors judge favorably those social entrepreneurs who decide to establish voluntary accountability efforts. So in addition to the positive effect on internal processes and external communications, social entrepreneurs can gain a positive signaling effect through voluntary accountability efforts.

The essay proceeds as follows. In section 2.1.2, we characterize social entrepreneurs and SVC investors. In addition, we lay out our definition of integrity and explain its relevance to the relationship between a SVC investor and a social entrepreneur. Subsequently, we explain five attributes which may be relevant for SVC investors in assessing the integrity of the social entrepreneur in section 2.1.3. We then describe our methodology based on the metricized limit conjoint analysis (MLCA), the sample and data collection process in section 2.1.4. Afterwards, we lay out our results in section 2.1.5. The essay closes with a discussion and conclusion (section 2.1.6).

2.1.2 Social entrepreneurs, social venture capital investors and importance of integrity

2.1.2.1 Social entrepreneurs

Hoogendoorn et al. (2010) describe different schools of thought in the area of social entrepreneurship. They broadly differentiate between the American and European tradition and explain the distinct roots of these traditions. According to the American tradition, social entrepreneurship refers to market-oriented economic activities with a social goal and neither the legal structure nor the sector is considered relevant. In contrast, the European tradition is rooted in the social sector and focuses on social enterprises which create a social impact for the community in fields where public services do not provide an adequate solution (Hoogendoorn et al., 2010). Based on these traditions, a number of schools of thought on social entrepreneurship were developed. It is hence not surprising that no common definition of a social entrepreneur exists (Light, 2008). However, some characteristics are regularly included in the definition of a social entrepreneur. An essential element in almost any definition is the social value proposition, i.e. the aim of the entrepreneur to solve a social problem (e.g., Alvord, 2004; Austin et al., 2006; Hibbert et al., 2002; Robinson, 2006) . The traditional Harvard definition of an entrepreneur as someone who is relentlessly pursuing his goal regardless of the resources at hand (Stevenson, 1999) is often quoted to describe the entrepreneurial aspects of social entrepreneurs (e.g., Bornstein, 2007; Dees, 1998b; Leadbeater, 1997; R. L. Martin & Osberg, 2007). Furthermore, for many scholars an innovative approach is an integral part of the definition of a social entrepreneur (e.g., Dees, 1998b; Kramer, 2005; Prabhu, 1999; Zahra et al., 2009).

We combine these common characteristics and define social entrepreneurs as individuals who try to solve or alleviate a social problem with an innovative entrepreneurial approach. In addition, we see the pursuit of a double bottom line consisting of social and economic goals as another important characteristic of social entrepreneurs (in line with: Achleitner, Spiess-Knafl, & Volk, 2014). In our context of the relationship between SVC investors and social entrepreneurs, it is important to include this additional aspect as SVC investors usually make it a prerequisite that the ventures that they fund are striving for financial sustainability. While the social goal is always overriding, economic goals can be own income generation, financial sustainability or the realization of profits.

With the pursuit of a double bottom line as an integral element of our definition of social entrepreneurs, we see social enterprises as a subtype of the for-benefit organization as described by Sabeti (2009). The primary attributes of for-benefit organizations are the commitment to a social purpose and the deployment of business activities consistent with that social purpose. Thereby, for-benefit organizations are blending attributes from the business, social and public sectors (Leadbeater, 1997) and are acting in a fourth sector (Fourth Sector, 2011; Sabeti, 2009). Currently, with more organizations being active in the fourth sector, traditional sectorial boundaries are blurring and for-benefit organizations are gaining importance. We focus on social enterprises as one type of for-benefit organizations and show how the distinct characteristics of this organizational form, i.e. the pursuit of a double bottom line, may affect the relationship with SVC investors.

2.1.2.2 Social venture capital investors

The increasing importance of social entrepreneurs (Light, 2008) has spurred the development of SVC investors that provide financial and non-financial support to social entrepreneurs (Achleitner et al., 2007; John, 2006; Kerlin, 2006). SVC investors use similar strategies as for-profit VC investors to finance social enterprises. They go through an intense selection process prior to their investment, then monitor and support the social entrepreneur on an ongoing basis and in some cases they already have a predefined exit strategy (Achleitner, 2007b; Grenier, 2006; John, 2006). Usually, they focus on social enterprises that use an innovative approach to tackle a social problem. While SVC investors are all driven by the goal to create a social return, the pursuit of an additional financial return differs depending on the funding model of the SVC investor. Some organizations view their investments as a grant without any payback obligation. Others have the goal to at least recuperate their investment or to even gain a financial return (Bridges Ventures & Parthenon Group, 2010). SVC funds include funds of private investors, companies or public authorities as well as foundations with a funding approach not solely focused on single projects.

SVC investors apply a multi-stage selection process before making their final investment decision to find social entrepreneurs who will use their funds efficiently to pursue a long-term social mission. Initial studies have analyzed this selection process and found that relevant categories scrutinized by SVC investors include, among others, the social entrepreneur, his business concept, the targeted market, the envisioned social impact and financials (Achleitner & Heister, 2009). More specifically, Scarlata and Alemany (2009) identified the social entrepreneur and his supporting management team as the most important selection criteria followed by the potential for a significant social impact. They conclude that the entrepreneur has a pivotal role in achieving the envisioned social impact (Scarlata & Alemany, 2009). Furthermore, Miller and Wesley (2010) find that SVC investors judge social entrepreneurs with a strong dedication to social change favorably, particularly if they have a strong social investment focus. Overall, these studies highlight the importance of the personal traits of the social entrepreneur in the selection process. Based on two in-depth case studies, Heister (2010) proposes that integrity is one critical item in evaluating the social entrepreneur during the selection process.

2.1.2.3 Definition and importance of integrity

The term integrity is commonly used in science. However, it is not clearly defined and understood (Rieke & Guastello, 1995). For our study, we used a definition comprised of three elements. First, a person of integrity is honoring his word, meaning that words and deeds are aligned (Erhard et al., 2010; Simons, 2002). Second, integrity implies that a person's behavior is consistent with disclosed values even under unfavorable circumstances (Pollmann, 2005). The third element refers to probity, meaning that a person acts in accordance with a morally justifiable value system (Becker, 1998).

Perceived integrity is a prerequisite for trustworthiness (Glaeser, Laibson, Scheinkman, & Soutter, 2000; Mayer et al., 1995; Parry & Proctor-Thomson, 2002) because "a person who is perceived as not doing what he says might have substantial difficulties in establishing any trust at all" (Simons, 2002, p. 21). Integrity has been identified as a relevant personal trait when selecting individuals. Chrisman, Chua, and Sharma (1998) found that integrity was more important than trustworthiness for the selection of successors in family firms. Findings from the field of strategic leadership also underline the relevance of integrity in judging individuals. Perceived integrity of the leader by sub-ordinates was shown to be positively related to the perception of the leader's effectiveness and organizational effectiveness in terms of the ability to achieve the targeted bottom-line (Parry & Proctor-Thomson, 2002). For personnel selection, integrity tests were shown to be useful in order to predict dishonest behavior (Ones & Viswesvaran, 2001). To our knowledge it has not yet been analyzed, how multiple factors jointly influence the assessment of integrity. Our aim is to show how an individual's integrity, in our case the integrity of a social entrepreneur, is evaluated by SVC investors as outsiders before the two parties form a relationship.

For SVC investors, the integrity of a social entrepreneur is of high relevance. One key challenge is that social entrepreneurs are pursuing a double bottom line consisting of social and economic goals (Mair & Marti, 2006; R. L. Martin & Osberg, 2007). There is the risk that social entrepreneurs get too focused on economic goals at the expense of social goals (Spear et al., 2007). The entrepreneur would then drift away from the initial purpose of creating primarily a social return (so called mission drift, Heister, 2010). It may even be rational for an individual to portray himself as a social entrepreneur with only a subordinate profit motive in order to acquire relatively cheap sources of capital from SVC investors. The possibility of a mission drift within non-profit structures is shown by Glaeser and Shleifer (2001). The authors explain that profits could be distributed indirectly by improving the own working conditions, e.g. via shorter working hours or more generous benefits (Glaeser & Shleifer, 2001). The social impact may also be harmed by unethical behavior of the entrepreneur in the course of company development. Social entrepreneurs may decide for unethical behavior because they assume the end justifies their means (Zahra et al., 2009). Perceived integrity is assumed to signal that the social entrepreneur is committed to his social mission in the long term and follows the double bottom line as portrayed prior to the investment.

In addition, integrity is important as SVC investors are faced with difficulties in monitoring the success of a social enterprise. It is difficult for SVC investors to assess the success of social enterprises as universal performance indicators for social impact do not exist (Austin et al., 2006; Barman, 2007). Furthermore, it is often not possible to attribute the social impact to a single organization (Dees & Anderson, 2002; Van Slyke, 2007). Monitoring is hence difficult and high information asymmetries between SVC investors and social entrepreneurs can occur. Furthermore, social entrepreneurs are not limited by traditional market mechanisms which drive inefficient organizations out of the market (Zahra et al., 2009). Customers, e.g., often have no incentive to decline the services of a social enterprise because they are often offered for free or at a reduced rate (Glaeser & Shleifer, 2001) or third parties are paying for the services (Hansmann, 1996). Integrity is a signal for the future behavior of the entrepreneur and, potentially, his effectiveness. Hence, integrity is likely to be an important personal trait for a SVC investor when evaluating a social entrepreneur.

2.1.3 Attributes affecting the assessment of integrity

Our aim is to show how SVC investors judge the integrity of social entrepreneurs. Specifically, we want to analyze how different characteristics of the social entrepreneur affect this judgment. The assessment of integrity is often based on intuition or gut feeling (Jankowicz & Hisrich, 1987) which was also confirmed in initial expert interviews with two SVC investors. They stressed that integrity of the entrepreneur was an important factor during the selection process and that they mainly used their experience to assess integrity. Our goal is to tap into this black box by finding attributes that jointly contribute to the overall assessment of integrity.

Integrity assessment by outside investors has not yet been explored in the literature. Hence, it was not possible to find an appropriate single theoretical frame to analyze this phenomenon. Our study is therefore exploratory in that we develop and describe attributes using different perspectives. In addition, our study is analytical by using a conjoint experiment with 80 participants to understand indicatively the relative importance of these attributes and trade-offs between them. In a first step, we reviewed existing literature and conducted initial expert interviews with two SVC investors to identify potentially relevant criteria for integrity assessment. Overall, we obtained eleven criteria. We then interviewed a total of two SVC investors, two social entrepreneurs and a lawyer active in the field to further condense the list down to five attributes (see Figure 2-2).

Figure 2-2: List of attributes for integrity assessment

This figure shows how we arrived at the five attributes for integrity assessment by SVC investors. We compiled the long list based on interviews with two SVC investors. Based on further interviews with five experts (two SVC investors, two social entrepreneurs, one lawyer active in the field), we then condensed the list down to five attributes.

Step 1: Long list of attributes for integrity assessment	**Step 2:** Condensed list of attributes for integrity assessment
Attributes of the entrepreneur:	*Attributes of the entrepreneur:*
• Personal experience	• Personal experience
• Professional background	• Professional background
• Corporate governance structures • Output orientation/reporting initiatives • Use of residual claim	• Voluntary accountability efforts
External judgements:	*External judgements:*
• Peer review • Image in the sector • Other official supporters	• Reputation
• Awards • Fellowships • Certificates	• Awards/fellowships

We found that two different perspectives may be relevant for the perception of the integrity of a social entrepreneur. First, SVC investors may focus on attributes of the social entrepreneur. These attributes include the personal experience of a social entrepreneur, his professional background and his efforts to increase the transparency of his activities. Second, external judgments of the social entrepreneur might influence the evaluation of his integrity. Reputation within the sector and third party certifications granted to the entrepreneur are considered as important sources for external judgments. We analyze how the attributes of the social entrepreneur and external judgments shape the evaluation of integrity by SVC investors. After a discussion on the relevance of the five attributes, namely the entrepreneur's personal experience, professional background, voluntary accountability efforts, reputation and awards/fellowships, we use conjoint analysis to assess the importance of these attributes. Furthermore, we analyze how experience influences the assessment of integrity.

2.1.3.1 Personal experience of the social entrepreneur

Personal experience refers to the relationship that a social entrepreneur has to the problem addressed by his social enterprise and implies that the social entrepreneur or close relatives or friends are or have been affected by the social issue addressed. For a SVC investor, the social entrepreneur's personal experience may be relevant in assessing integrity as it could be a signal for his intrinsic motivation to follow the social mission (Achleitner & Heister, 2009).

The self-determination theory distinguishes between intrinsic and extrinsic motivation. An intrinsically motivated person performs an activity for its inherent satisfaction rather than for a separable consequence (Ryan & Deci, 2000). In contrast, extrinsic motivation is mainly driven by the achievement of external outcomes such as remuneration. As intrinsic motivation is more stable over time than extrinsic motivation, it positively influences the long-term satisfaction of the person performing the task (Fischer & Wiswede, 2009). Satisfaction in turn is important for long term loyalty (Borzaga & Defourny, 2001). In line with these arguments, for-profit entrepreneurs are portrayed to be more successful in cases where they are mainly driven by intrinsic motivation (Guzmán & Santos, 2001).

In the context of social entrepreneurs, intrinsic motivation may be particularly important in keeping the social entrepreneur focused on his social mission in the long term, as pecuniary rewards for the entrepreneur are limited. Intrinsic motivation can be a signal for the perseverance of the entrepreneur and can foster organizational development and growth (Baum, Locke, & Smith, 2001; Boschee, 1998; R. L. Martin & Osberg, 2007). So even if external circumstances of the social entrepreneur change over time, he may be more likely to honor his original claim to follow his social mission if he is highly intrinsically motivated. Following our definition of integrity, intrinsic motivation may therefore be linked with integrity.

For outsiders, it is difficult to judge the intrinsic motivation of a social entrepreneur. His personal experience with the social problem he is trying to solve is an indicator which can easily be observed by SVC investors. So even though the personal experience is only one potential source for intrinsic motivation, SVC investors may still perceive it to be relevant in their integrity assessment. Initial empirical reference points show that in many cases social entrepreneurs are or were personally affected by the social issues addressed by their enterprises. Based on a survey of Swiss social entrepreneurs, Barendsen and Gardner (2004) found that about 50% of social entrepreneurs experienced traumas or deeply transformative experiences that induced them to become a social entrepreneur (Barendsen & Gardner, 2004). In a survey among 208 social entrepreneurs in Germany, 31% indicated that a personal experience motivated them to start a social enterprise that addresses the social issue (Scheuerle & Schmitz, 2011).

So far, this empirical evidence only indicates that a large share of social entrepreneurs have relevant personal experiences, without directly linking them to any behavioral patterns. Therefore, empirical verification of the importance of the entrepreneur’s personal experience as an indicator for intrinsic motivation and perseverance is still required. In our initial round of interviews to compile attributes for the assessment of integrity, SVC investors indicated personal experience to be relevant. In addition, social entrepreneurs confirmed that they were often questioned by SVC investors about their personal relation to the social issue. A recent publication by Ashoka Germany on their fellows also indicates the importance of the attribute of personal experience. In 22 out of 39 profiles, the personal experience of the social entrepreneur with the social issue is highlighted (Ashoka Germany, 2011). We hypothesize that SVC investors perceive personal experience as a relevant attribute in judging the integrity of the entrepreneur. Hence, we propose:

Hypothesis 1: SVC investors will evaluate the integrity of a social entrepreneur more positively if the social entrepreneur has a personal experience/ relationship with the problem he is trying to solve.

2.1.3.2 Professional background of the social entrepreneur

The professional background of the social entrepreneur is an important criterion screened by SVC investors in the course of the selection process as it portrays the prior experience of the entrepreneur as well as his supporting network (Heister, 2010). Prior entrepreneurial experience signals knowledge in building new companies whereas management experience indicates the ability to professionalize and scale the venture in the future (Miller & Wesley, 2010). Sector-specific experience can be particularly helpful in developing innovative methods for tackling a social problem (Perrini & Vurro, 2006). The previous experience as well as the network of the social entrepreneur are likely to be linked to the future success of the social enterprise (Lee & Tsang, 2001).

According to the self-selection theory, individuals who are committed to a social cause self-select into the social sector by accepting lower incomes compared to the business sector. As they identify with the goal of the organization, a high level of integrity could be the result and monitoring becomes less important (Callen & Falk, 1993). However, as explained above social entrepreneurs are active in the fourth sector. Some of them previously had business experience while others were active in the social sector (Light, 2008). So while some social entrepreneurs self-select to the fourth sector from the business sector, other social entrepreneurs already committed themselves to the social sector prior to founding the social enterprise. For social entrepreneurs, the link between self-selection and integrity is therefore not distinct.

On the one hand, business background could be a signal for high social commitment due to high financial opportunity costs. Financial opportunity costs result from low salaries as well as the limited profit opportunities of social enterprises. On the other hand, social entrepreneurs with a business background do not seem to identify themselves with their social purpose as strongly as actors from the social sector (Miller & Wesley, 2010). Accordingly, social entrepreneurs with a social background have shown through their prior career choice that they were already committed to creating social value instead of aiming for a high financial income. This could be an indicator for a low risk of mission drift into the financial direction. However, social entrepreneurs with a social background might lack incentives and know-how to professionalize and scale their venture, which in turn might jeopardize the survival of their ventures (Spear et al., 2007) leading to conflicts with their investors.

Based on these arguments, we conclude that prior career choices of a social entrepreneur are unlikely to have a distinct link to the integrity of the entrepreneur. However, a SVC investor may perceive the integrity of a social entrepreneur to be high, if he represents working morals and ethics that are similar to his own (Miller & Wesley, 2010). As the professional background can be seen as an indicator for these values, there could be a similarity-bias in how SVC investors evaluate the link between professional background and integrity: SVC investors with a social background tend to value a social background favorably while the ones with a business background prefer social entrepreneurs with business experience. In the context of for-profit VC investors, Franke, Gruber, Harhoff, and Henkel (2006) have tested such a similarity-bias in the selection of investees and found that similarity of the VC investor and the entrepreneur in professional experience and field of education, both of which are attributes of the professional background, positively influences the evaluation of the entrepreneur. The existence of a similarity-bias was also shown in employee selection (N. Anderson & Shackleton, 1990) or the selection of business associates (Lichtenthal & Tellefsen, 2001). Even though a similarity-bias was found in various contexts, the influence of such a bias on the perceived integrity was not yet analyzed. Furthermore, prior studies did not compare the importance of a similarity-bias to other relevant decision drivers. Our method allows us to identify trade-offs between several criteria. We propose:

> *Hypothesis 2: SVC investors will evaluate the integrity of a social entrepreneur more positively if the social entrepreneur has a similar professional background.*

2.1.3.3 Voluntary accountability efforts of the social entrepreneur

In recent years, prominent cases of fraud were uncovered both in the business as well as social sectors and have received a lot of coverage in the literature (Gibelman & Gelman, 2001; Greenlee, Fischer, Gordon, & Keating, 2007; Koss, 2005; Ostas, 2007). Accounting scandals such as the case of Enron in the business sector have led to higher transparency requirements for large corporations (Petrick & Scherer, 2003). In the social sector, the misuse of funds in non-profit organizations such as UNICEF Germany was publicly criticized (Frankfurter Allgemeine Sonntagszeitung, 2008; Spiegel Online International, 2008). As a result, investors and donors nowadays demand increasing accountability in order to prevent the inefficient use of their funds (Ebrahim, 2003; Ostrander, 2007).

In addition to its high relevance in the business as well as social sectors, accountability is likely to also be important for social entrepreneurs, in particular, in their relationship to SVC investors. The SVC investor cannot foresee the commitment of the social entrepreneur in pursuing the social mission over the long term. Furthermore, as the performance of a social enterprise in terms of social impact generation is hard to measure, it is difficult for the SVC investor to monitor the social entrepreneur over time (Austin et al., 2006). Via voluntary accountability efforts, a social entrepreneur signals the SVC investor that he is willing to increase the transparency of his organization and/or to be monitored by outsiders. As voluntary accountability efforts make it more difficult for the entrepreneur to deviate from his initial mission, it can be an indication that he has integrity.

In the context of social enterprises, voluntary accountability efforts refer to disclosures of reports or the set-up of a governance structure and other mechanisms which facilitate external control (e.g. memberships in umbrella associations). Disclosures of reports decrease information asymmetries between investors and social entrepreneurs (R. Young, 2006). Furthermore, disclosures of social impact measurements serve to legitimize the existence of a social enterprise (Nicholls, 2005). Other accountability efforts include the setup of an advisory board or the appointment of non-executive members to the board of directors. They control and monitor the activities of the social enterprise and thereby objectify important management decisions. The inclusion of advisory boards or non-executive board members reduces possibilities for opportunistic behavior by the social entrepreneur (Fama & Jensen, 1983). The setup of advisory boards has decreased fraud in the social sector (Greenlee et al., 2007). SVC investors often require a seat on the advisory board or the formation of an advisory board as a prerequisite for funding a social enterprise (M. Martin & John, 2006). Memberships in umbrella organizations are another mechanism to reduce information asymmetries by showing the willingness to have external visibility (Gugerty, 2009).

Overall, voluntary accountability efforts can improve internal processes of the social enterprise and can increase the external control of social entrepreneurs. This helps to reduce information asymmetries between social entrepreneurs and SVC investors and thus might help to mitigate the risk of mission drift or unethical behavior. If the social entrepreneur establishes voluntary accountability efforts, it may be a signal for his integrity. Therefore, we posit:

> *Hypothesis 3: SVC investors will evaluate the integrity of a social entrepreneur more positively if the social entrepreneur engages in voluntary accountability efforts.*

2.1.3.4 External judgments of the social entrepreneur

The first three attributes were linked to the social entrepreneur and his efforts to signal transparency. For the assessment of a social entrepreneur's integrity, it is furthermore important how the social entrepreneur is perceived by others within the sector. Opinions of others are relevant in the social sector because this sector is characterized by a tight network of stakeholders with diverse interests (Anheier, 1995). The stakeholders within this network are dependent on each other, e.g. for volunteering or pro bono services (e.g. Jansen et al., 2010). Furthermore, the manifold connections of social entrepreneurs in the society, e.g. to private supporters, government agencies, peers and clients, play an important role in building sustainable social enterprises (Kreutzer & Jäger, 2008) and a large network of outside supporters and collaborators can be essential for the success of social entrepreneurs (Light, 2008). Moreover, the reputation of SVC investors is also linked to the public perception of the social entrepreneurs they support. Therefore, external judgments of the social entrepreneur are likely to have an influence on the financing decision of a SVC investor (Austin et al., 2006; Padanyi & Gainer, 2003). Overall impressions of peers and outside stakeholders are reflected in the reputation of a social entrepreneur. Furthermore, third party certifications in the form of awards or fellowships portray formalized external judgments of the social entrepreneur.

2.1.3.4.1 Reputation of the social entrepreneur

SVC investors are faced with high information asymmetries regarding the future commitment of the social entrepreneur to his social mission. In this context, the reputation of the social entrepreneur can provide the SVC investor with valuable information on the entrepreneur’s behavioral patterns. Reputation is defined as the perceptual representation of an individual’s or organization’s actions in the past that describe the overall impression of key peers and outside stakeholders (Fombrun, 1996). SVC investors assess the reputation of social entrepreneurs by asking peers as well as experts in the sector for their feedback and by screening media coverage in order to get insights on the general public perception of the social entrepreneur or the social enterprise. Thereby, SVC investors build expectations about the future behavior of an entrepreneur (Duffner, 2003). In case of unethical or untrustworthy behavior of an entrepreneur, information about such behavior can be spread by affected people thereby harming his reputation. Therefore, a high reputation seems to be a signal for trustworthy behavior in the past (Ensminger, 2001). Furthermore, it reduces the incentive of the entrepreneur for untrustworthy behavior in the future as this would destroy the reputation which he has built up (Diamond, 1989). Information of third parties should be reliable as they do not have an incentive to provide misleading information which could reduce in turn their own reputation (Handy, 1995; Meyerson, Weick, & Kramer, 1996).

The critical role of reputation in gaining access to external resources has been empirically validated for the business as well as social sectors. Padanyi and Gainer (2003) analyze relationships between peer reputation and performance in the social sector. They show a positive link between the reputation among managers of similar organizations and the ability to attract outside resources (Padanyi & Gainer, 2003). In the business sector, reputable entrepreneurs were also shown to be more likely to receive funding from VC investors as reputation provides information on their ability to use their network and to grow their enterprise (Shane & Cable, 2002). We further extend these empirical findings by analyzing the importance of reputation for the assessment by SVC investors of the integrity of social entrepreneurs.

As explained above, high reputation can be a signal of integrity for the SVC investor because it mirrors the past behavior of the social entrepreneur and deters him from immoral behavior in the future. Therefore, we anticipate:

> *Hypothesis 4: SVC investors will evaluate the integrity of a social entrepreneur more positively if the social entrepreneur has a high reputation.*

2.1.3.4.2 Awards / fellowships granted to the social entrepreneur

In addition to reputation, we focus on third party formalized certifications as another source for external judgments of the social entrepreneur. Certifications refer to awards or fellowship programs from other organizations (e.g. recognition as a Schwab social entrepreneur or ISO 9000).

Third party certifications potentially present valuable information for SVC investors because they can be a signal for high commitment of the social entrepreneur (Achleitner & Heister, 2009). In order to win an award or fellowship, social entrepreneurs have to go through a formalized application process. Usually, a specialized committee is formed which evaluates in detail the potential of the social entrepreneur and his approach based on predefined selection criteria. These intense formal selection processes can help to increase the transparency of social enterprises. As there are no rating agencies for social enterprises, awards/fellowship can fulfill an important signaling function and can establish a common standard for performance evaluation and measurement (Gugerty, 2009). Third party certifications require formalized information about internal processes in the social enterprise thereby reducing information asymmetries for outsiders (Paton & Foot, 2000).

Award/fellowships granted to a social entrepreneur are a signal that others have perceived the social entrepreneur as promising and trustworthy and thus can increase the legitimacy of the social entrepreneur. This could have a positive impact on the way SVC investors perceive the social entrepreneur's integrity. Furthermore, awarded organizations receive more public attention (Fombrun, 1996) and thus are more likely to be under public scrutiny. This public scrutiny reduces the incentive for unethical behavior. In the business sector, government grant programs were shown to fulfill a certification function for VC investors. Entrepreneurs who had received an award were more likely to receive funding from VC investors (Lerner, 1999).

However, awards/fellowships are usually a one-off event. They provide information about a social entrepreneur at a particular point in time and the social entrepreneur may change his approach subsequently (Paton & Foot, 2000). The selection committee may be guided by prior awards/fellowships of a social entrepreneur as a sufficient signal for his legitimacy, and therefore circumvent another detailed evaluation which might otherwise introduce less favorable indicators. Lerner (1999) provides an indication for this type of effect by showing that multiple awards for business entrepreneurs do not lead to a higher likelihood of gaining funding from VC investors than a single award. Therefore, it remains to be analyzed whether third party certification is potentially only a weak predictor for integrity compared to other attributes of the social entrepreneur. Our analysis allows us to analyze relative importance and to show trade-offs between the different attributes. We propose:

Hypothesis 5: SVC investors will evaluate the integrity of a social entrepreneur more positively if the social entrepreneur has received awards or fellowships.

2.1.3.5 Influence of experience on the evaluation of integrity

Evaluating the integrity of a social entrepreneur is complex as social entrepreneurs are pursuing a double bottom line approach and are not just fulfilling a single purpose (Achleitner et al., 2011b). Thus, their integrity concerning the fulfillment of two often conflicting goals has to be assessed. The experience of the evaluator is likely to have an influence on the way integrity is judged. Prior studies on the influence of experience have come to contrary conclusions: that experts have a more elaborate decision-making system taking into account more attributes than novices (Shanteau, 1992) or that they have simpler decision models than inexperienced decision makers (Lurigio & Carroll, 1985) and only focus on a small number of key factors (Shepherd, Zacharakis, & Baron, 2003). In order to test the influence of experience on the evaluation of integrity, we analyze differences between experienced SVC investors and students with academic knowledge in the area of social entrepreneurship. We propose that experience has an influence on the evaluation of integrity and therefore we posit:

Hypothesis 6: Experienced SVC investors will evaluate the integrity of a social entrepreneur differently than will students.

2.1.4 Method

Scholars often investigate decision policies of managers using post-hoc methodologies, such as questionnaires or interviews (MacMillan, Zemann, & Subbanarasimha, 1987; Shepherd & Zacharakis, 1999; Tyebjee & Bruno, 1984). While these methods can yield important insights on the decision-making process they also have some disadvantages. The use of post-hoc self-reported data, can cause biases such as recall bias and post-hoc rationalization bias (Shepherd & Zacharakis, 1999). Furthermore, decision makers often lack introspection into their own decision policies or bias the results by intent (Franke et al., 2006). Conjoint analysis allows researchers to collect data as the decision is made and thereby overcomes many of the limitations of post-hoc methods. For investigating the evaluation of integrity, real-time methods are better able to portray the gut feeling of the participant in the decision-making process compared to post-hoc interviews. In conjoint analysis, participants are evaluating several constructed profiles which consist of combinations of parameter values of several attributes. Decision policies of participants are deduced from their evaluations of these profiles. Conjoint analysis allows us to assess the significance level of the attributes as well as the relative importance of each attribute in the decision-making process (Shepherd & Zacharakis, 1999). Furthermore, trade-offs between different parameter values of the attributes can be quantified.

2.1.4.1 Metricized Limit Conjoint Analysis

There are two measurement methods for obtaining the evaluations of the participants of a conjoint study. First, participants can rate the profiles on a predefined Likert scale. The advantage of rating is that it provides metric data. Second, participants can rank the profiles in order of the dependent variable. The main advantage of this measurement method is an increased manageability due to better haptics (Baierl & Grichnik, 2010). In addition, the participant evaluates all profiles simultaneously in the ranking process. It is hence less likely that he will change his evaluation pattern in the process of the experiment which can increase reliability (Teichert, 2001). However, conjoint studies which use ranking for data collection only obtain ordinal data. So far, utility values of the ranked profiles were mostly calculated with the unrealistic assumption of equal distances between the profiles. The approach used in our study, metricized limit conjoint analysis (MLCA) developed by Baierl & Grichnik (2010), combines the advantage of increased information content through metric data with the advantages of ranking methods. MLCA is based upon limit conjoint analysis (LCA). In LCA, participants rank the profiles in a first step and are asked in a second step to place a limit card behind the last acceptable profile (Voeth & Hahn, 1998). The inclusion of a limit card leads to a separation of acceptable and non-acceptable profiles. In a study using MLCA, participants additionally are able to adjust distances between ranked profiles by placing wildcards. Wildcards are blank cards which can be placed between profiles in order to portray differences in the distance between profiles. Participants are free to choose if they want to include any wildcards. Via the usage of wildcards, ordinal scaled data is converted into interval scaled data (Baierl & Grichnik, 2010). Utility values of the profiles are calculated using the following formula[32]:

$$\boldsymbol{U_{ik}} = \begin{cases} \boldsymbol{L_i + J_{kL_i} - p_{ki} + 0.5} & \boldsymbol{if} \quad \boldsymbol{p_{ki} \leq L_i} \\ \boldsymbol{L_i - J_{L_ik} - p_{ki} + 0.5} & \boldsymbol{if} \quad \boldsymbol{p_{ki} > L_i} \end{cases}$$

U_{ik} = utility value of scenario k for participant i

L_i = ranking after which the limit card was positioned

J_{kLi} = sum of all wildcards between scenario k and L_i

J_{Lik} = sum of all wildcards between L_i and scenario k

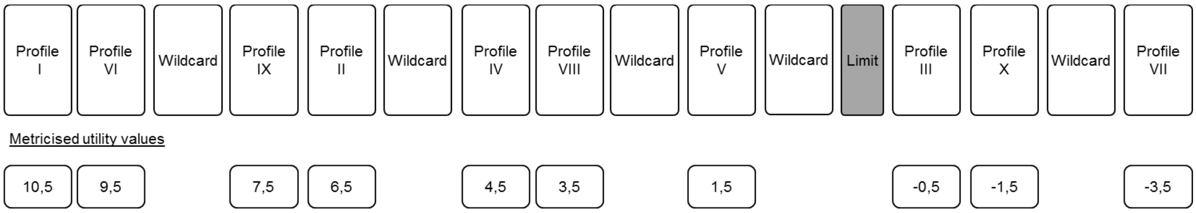
p_{ki} = ranking of scenario k by participant i

See Figure 2-3 for an example of the ranking process including profiles, wildcards and the limit card.

32 In comparison to Baierl und Grichnik (2010) the limit card is not interpreted as an additional wildcard.

Figure 2-3: Metricized limit conjoint analysis (MLCA)

The figure shows the ranking procedure used in our real-time experiment. The procedure was based on metricized limit conjoint analysis (MCLA) as developed in Baierl and Grichnik (2010).



2.1.4.2 Sample

Our sample consists of experts who are actively involved in the selection of social entrepreneurs as well as students in the field of social entrepreneurship. For the expert sample, we focused on investment managers and investment consultants of SVC funds. The directory of the European Venture Philanthropy Association and a list of John (2006) were used to identify potential participants. The participants were located in all major European countries. In total, 50 experts were contacted and 40 agreed to participate in our study. This represents a response rate of 80%. The average experience of the experts with social investments was 5.6 years. 85% have a university degree as highest degree. 50% have a background (education and previous experience) in the social sector, 50% in business. The participants are 68% male and 32% female.

Additionally, students with academic knowledge in the area of social entrepreneurship participated in our study. Overall, 47 students were contacted and 40 agreed to participate, leading to a response rate of 85%. The students did not have any practical experience with social investments. They were mainly enrolled in business programs (88%) but all of them had attended at least one course on social entrepreneurship prior to the experiment. Table 2-1 presents characteristics of our sample.

Table 2-1: Characteristics of participants

Professionals		
Experience with social investment	Ø 5.6 (std. dev. 3.38; range 0.5-17)	
Professional Background	Business, N = 20	Social Sector, N = 20
Highest Degree	University Degree, N = 34	PhD, N =6
Gender	Male, N = 27	Female, N =13
Students		
Course of Studies	Business, N = 35	Social Sciences, N = 5
Gender	Male, N = 25	Female, N = 15

2.1.4.3 Data collection

We either met the participants in person to undertake the experiment or we guided them through a web implementation via phone. Prior to the ranking exercise, we explained our definition of integrity as honoring one's word, acting in accordance with disclosed values even under unfavorable circumstances, and having the basis of a morally justifiable value system (Becker, 1998; Erhard et al., 2010; Pollmann, 2005; Simons, 2002). Furthermore, we characterized the hypothetical social entrepreneurs which were to be evaluated. Specifically, participants were told to assume that the social entrepreneurs, which they were to evaluate later on, presented a clear social impact, are innovative and that their concepts have already been implemented successfully in pilot projects. Hence, we focus on the second stage of the selection process after the social entrepreneur has already passed an initial screening. The participants then had to rank the profiles according to their perceived integrity from highest to lowest. In a second step, participants were asked to include a limit card behind the last acceptable profile. Thereby, the ranked profiles are divided into non-acceptable profiles and profiles where the perceived integrity is high enough to consider the social entrepreneur for further evaluation. In a third step, participants were able to adjust distances between ranked profiles using wildcards. In order to test participants' reliability, they then had to rate two replicated profiles on a scale of -10 to +10. The conjoint task was followed by a post-experiment survey to obtain the participant's perception of the experiment and his or her introspection. Overall, 66% of the participants found the inclusion of wildcards helpful to portray the values of the profiles more precisely.

2.1.4.4 Measures

The dependent variable in this study is the evaluator's perception of the social entrepreneur's integrity. The profiles of the hypothetical social entrepreneurs in our experiment entail five attributes which represent the independent variables and stem from the theoretical arguments described above. Each attribute was presented at two levels:

(1) Personal Experience: affected; not affected
(2) Professional Background: mainly in social sector; mainly in business
(3) Voluntary accountability efforts: high; low
(4) Reputation: high; not high
(5) Awards/Fellowships: yes; no

Table 2-2 presents a complete definition of each of the attributes and the parameter values used in the conjoint analysis. As explained above, we tested the attributes and parameter values in discussions with five experts from the sector (two investment managers of SVC funds, two social entrepreneurs and a lawyer active in this field). They confirmed the face validity for attributes and their levels.

Table 2-2: Definition of independent variables

Attribute	Definition	Paramter values
Personal experience	The social entrepreneur, close family members or friends are/ were directly affected by the social issue addressed by the social enterprise.	1 = affected, 0 = not affected
Professional background	Prior work experience: Social entrepreneurs who were mainly active in the business or mainly active in the social sector.	1 = mainly in social sector, 0 = mainly in business
Voluntary accountability efforts	Initiatives of the social entrepreneur to increase accountability of the organization like disclosures, performance evaluations or external control.	1 = high, 0 = low
Reputation	Stakeholders' evaluation of the social entrepreneur which is based on information about past actions and performance. Stakeholders include for instance affiliates, experts from the sector or patrons.	1 = high, 0 = not high
Awards / fellowships	Awards or fellowships granted to the social enterprise or the social entrepreneur.	1 = yes, 0 = no

For five attributes each with two levels, there are 32 (2^5) possible combinations for the profiles. In order to make the decision-making task more manageable, we used an orthogonal fractional factorial design to reduce the number of parameter value combinations (Green & Srinivasan, 1978). Our fractional factorial design resulted in eight profiles with which all main effects were testable. Additionally, we included two hold-out profiles which were not used to estimate the coefficients of the model but to measure the predictive ability of the model. Additionally, one limit card and 16 wildcards were offered to participants. Only one participant used all 16 wildcards. Therefore, we assume that 16 wildcards were sufficient.

2.1.4.5 Analysis

In order to calculate the influence of the parameter values on the perception of a social entrepreneur's integrity, we model the utility values as a continuous function of the five attributes. Each attribute *j* *(j=1,…,5)* enters the equation with one parameter value x_j, the coefficients of the remaining parameter values are implicitly set to zero (dummy variable technique). Furthermore, we employ a variable S_{ik} which has the value of one if the participant i has a business background and the background stated on profile k is social in order to test for the similarity-bias concerning professional background.

$$\boldsymbol{U_{ik} = \beta_0 + \sum_{j=1}^{J} \beta_j x_{jk} + \gamma\, S_{ik} + \varepsilon_{ik}}$$

The study provides 8 observations per participant for the calculations of the coefficients. With 40 experts and 40 students, there are a total of 640 observations. Even though this implies a large number of degrees of freedom, there may be autocorrelation because the 640 observations are nested within 80 individuals. Therefore, we used hierarchical linear modeling (HLM) to analyze the data because it accounts for individual level variance (Raudenbush & Bryk, 2002). The intraclass correlation, a measure of dependence of decisions within participants (Raudenbush & Bryk, 2002), is 35.7% for experts and 19.5% for students.

2.1.5 Results

2.1.5.1 Results of experts

A majority of the individual models of experts' decision policies (67.5%) explained a significant proportion of variance ($p<0.1$) with a mean R^2 of 0.95. It was possible to reproduce the utility values of the hold-out profiles correctly with the coefficients calculated (Kendall Tau for hold-outs = 1.00; $p < 0.01$). The test-retest reliability of the rankings was analyzed using two replicated profiles, which were ranked on a scale. We did not replicate all profiles as this would have overstrained the time capacity of our participants. Overall, 88% of the participants rated the profiles correctly relative to the position of their limit card, meaning that if the profile was previously ranked before the limit card the profile was rated positively, if after, negatively. This shows that participants have a high level of consistency in judgment.

Results are reported in Table 2-3, which includes parameter values, coefficients, corresponding standard errors, t-values and levels of significance. Model 1 displays the effects of all five attributes on the evaluation of integrity. Model 2 accounts for the similarity-bias concerning professional background by including an interaction term for that attribute additional to the coefficients of all attributes. It is shown that the effects of the existence of *personal experience* (coefficient = 0.925; $p < 0.01$), *high accountability efforts* (coefficient = 4.000; $p < 0.01$), *high reputation* (coefficient = 4.063; $p < 0.01$) and *awards/fellowships granted to the social entrepreneur* (coefficient = 1.738; $p < 0.01$) were significant and positive, providing support for Hypotheses 1, 3, 4 and 5. There is no significant preference for *professional background in the social sector* (coefficient = 0.250; $p > 0.1$). Hypothesis 2 predicts that raters will judge integrity more positively if there is similarity between the rater's and the social entrepreneur's professional background. It is shown that *experience in the social sector* leads to a benefit contribution of 0.720 ($p < 0.1$) for raters who have a similar background. On the contrary, raters with a business background judge *experience in the social sector* negatively (coefficient = -0.220; $p < 0.1$).

Table 2-3: Regression results of expert sample

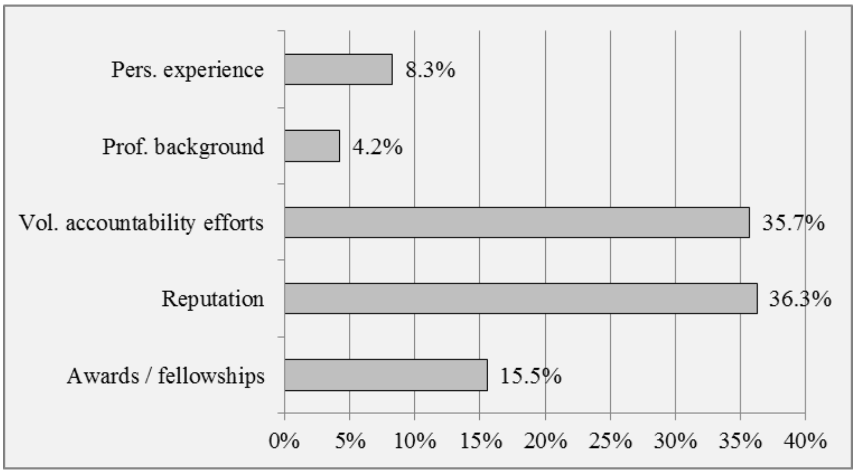
This table presents the results of multilevel mixed-effect linear regressions with the utility value as the dependent variable. The sample is based on real-time experiments with 40 social investment experts based on metricized limit conjoint analysis (MLCA). Each participant had to rank eight profiles in total and placed the limit card and wildcards where appropriate leading to 320 observations in total. The regression differentiates between variance on the first level, the decision on integrity (fixed effect), and on the second level, the individual participant (random effect). All variables were standardized and group centered. * p<0.1, ** p<0.05, *** p<0.01

Independent Variables		Model 1: Without interaction			Model 2: With interaction		
		Coefficient	Standard error	t-ratio	Coefficient	Standard error	t-ratio
Pers. experience	- affected	0.925	0.293	3.155 ***	0.925	0.293	3.161 ***
Prof. background	- social	0.250	0.293	0.853	0.720	0.406	1.772 *
PBi x prof. background	- bussiness x social				-0.940	0.564	-1.668 *
Vol. accountability efforts	- high	4.000	0.293	13.641 ***	4.000	0.293	13.669 ***
Reputation	- high	4.063	0.293	13.855 ***	4.063	0.293	13.882 ***
Awards / fellowships	- yes	1.738	0.293	5.926 ***	1.738	0.293	5.937 ***
Intercept		-3.356	0.628	-5.345 ***	-3.356	0.618	-5.427 ***
N		320			320		
Log. Likelihood		-814.424			-813.052		
Chi²		423.825 ***			428.309 ***		
Degrees of freedom		5			6		

Our approach allows a meaningful comparison of attributes beyond a mere ordering of their importance. The importance of an attribute is calculated by relating the absolute parameter value of that attribute to the sum of all absolute parameter values. As Figure 2-4 illustrates, *reputation* (36.3%) and *accountability efforts* (35.7%) are by far the most important attributes. For an overall positive judgment of the integrity of the social entrepreneur, it was sufficient for experts if either *reputation* or *accountability efforts* were high. Both attributes are more than twice as important as *awards/fellowships* (15,5%). Some participants worried that awards are often not granted based on the quality of a concept but rather on the public appearance and, hence, the ability of the entrepreneur to present herself positively. *Personal experience* only accounts for 8.3% of the overall judgment. Some participants even stated that they would evaluate *personal experience* negatively when judging integrity. *Personal experience* can lead to high emotional attachment to the addressed problem. On the one hand, this can lead to a high degree of empathy in the social entrepreneur that can be helpful in dealing with their target group (Mair & Noboa, 2006). On the other hand, it can also cause the tendency to see unethical behavior – as long as it supports the social mission – as justifiable (Zahra et al., 2009). Furthermore, as interviewees noted, a social entrepreneur can easily ‘construct’ personal experience, e.g. by highlighting a personal situation from the past or by referring to a (distant) family member, friend or colleague directly affected by the problem. Thus, we follow that *personal experience* is not a strong indicator for social motivation. Regarding Hypothesis 2, data indicates a similarity-bias. However, the evaluation of *professional background* only accounts for 4.6% of the overall judgment and therefore seems to be negligible.

Figure 2-4: Attribute contributions of expert sample

This figure shows the attribute contributions of each independent variable based on multilevel mixed effect linear regressions on the expert sample. The sample is based on real-time experiments with 40 experts based on metricized limit conjoint analysis (MLCA). The attribute contributions are calculated using the coefficients of Model 2 of the expert sample.



2.1.5.2 Comparison to results of students

We now explore whether experience with social investments has an effect on the evaluation of integrity. Table 2-4 entails the utility values for students. Overall, we find that both experts and students attach the highest importance to the attributes *accountability efforts* and *reputation,* and the lowest to *professional background*. However, our analysis also reveals some key differences, providing support for Hypothesis 6. To identify how the results of experts differ from the results of students we calculated the results for the whole sample and interacted all terms with a dummy variable Δ_i that turns one if the participant is an expert.

$$\boldsymbol{U_{ik}} = \boldsymbol{\beta_0} + \sum\nolimits_{j=1}^{J} \left(\boldsymbol{\beta_{j1}} \boldsymbol{x_{jk}} + \boldsymbol{\beta_{j2}} \Delta_i \boldsymbol{x_{jk}}\right) + \boldsymbol{\varepsilon_{ik}}$$

For the results see Table 2-5. Figure 2-5 shows how the evaluations of experts differ from those of students. There are two significant differences in the benefit contributions: *Personal experience* is more important for students (coefficient = 1.819; $p < 0.01$) than it is for experts (coefficient = 0.925; $p < 0.01$). The opposite is true for *reputation*, which is judged as more important by experts (coefficient = 4.063; $p < 0.01$) than by students (coefficient = 3.531; $p < 0.01$). Furthermore, no similarity-bias is found for students. They have a significant preference for *social background* (coefficient = 0.931; $p < 0.01$).

Table 2-4: Regression results of student sample

This table presents the results of multilevel mixed-effect linear regressions with the utility value as the dependent variable. The sample is based on real-time experiments with 40 students based on metricized limit conjoint analysis (MLCA). Each participant had to rank eight profiles in total and placed the limit card and wildcards where appropriate leading to 320 observations in total. The regression differentiates between variance on the first level, the decision on integrity (fixed effect), and on the second level, the individual participant (random effect). All variables were standardized and group centered. * p<0.1, ** p<0.05, *** p<0.01

Independent Variables		Model 3: Without interaction			Model 4: With interaction		
		Coefficient	Standard error	t-ratio	Coefficient	Standard error	t-ratio
Pers. experience	- affected	1.819	0.298	6.110 ***	1.819	0.297	6.120 ***
Prof. background	- social	0.931	0.298	3.130 ***	0.242	0.796	0.300
PBi x prof. background	- bussiness x social		0.000	0.000	0.787	0.844	0.930
Vol. accountability efforts	- high	4.456	0.298	14.980 ***	4.456	0.297	15.000 ***
Reputation	- high	3.531	0.298	11.870 ***	3.531	0.297	11.890 ***
Awards / fellowships	- yes	1.969	0.298	6.620 ***	1.969	0.297	6.630 ***
Intercept		-4.718	0.527	-8.960 ***	-4.718	0.526	-8.970 ***
N		320			320		
Log. Likelihood		807.631			-807.196		
Chi²		456.220 ***			458.550 ***		
Degrees of freedom		5			6		

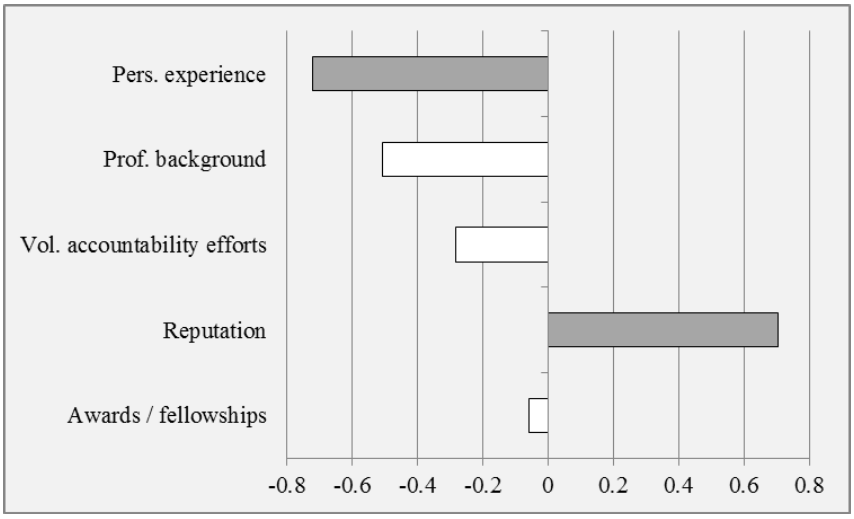
Table 2-5: Regression results for sample of experts and students interacted with status

This table presents the results of multilevel mixed-effect linear regressions with the utility value as the dependent variable. The sample is based on real-time experiments with 40 experts and 40 students based on metricized limit conjoint analysis (MLCA). Each participant had to rank eight profiles in total and placed the limit card and wildcards where appropriate leading to 640 observations in total. The regression differentiates between variance on the first level, the decision on integrity (fixed effect), and on the second level, the individual participant (random effect). The table was calculated by including both samples into one data set and including an interaction term for each independent variable for the status (expert/student) of the participant. The interaction term turns one if status is expert. All variables were standardized and group centered. * p<0.1, ** p<0.05, *** p<0.01

Independent Variables		Coefficient	Standard error	t-ratio
Pers. experience	- affected	1.732	0.291	5.950 ***
Prof. background	- social	0.844	0.291	2.900 ***
Vol. accountability efforts	- high	4.369	0.291	15.020 ***
Reputation	- high	3.444	0.291	6.470 ***
Awards / fellowships	- yes	1.882	0.291	11.840 ***
Status x Pers. experience	- affected	-0.719	0.404	-1.780 *
Status x Prof. background	- social	-0.507	0.404	-1.250
Status x Vol. accountability efforts	- high	-0.282	0.404	-0.700
Status x Reputation	- high	0.706	0.404	1.740 *
Status x Awards / fellowships	- yes	-0.057	0.404	-0.140
Intercept		-4.037	0.413	-9.770 ***
N		640		
Log. Likelihood		-1.624.908		
Chi²		876.960 ***		
Degrees of freedom		10		

Figure 2-5: Differences in benefit contributions between experts and students

This figure shows the differences between benefit contributions of the independent variables for the expert and the student sample. Reading Example: Experts rate 'Reputation' 0.71 points higher than students. Differences were calculated by including both samples into one data set and including an interaction term for each independent variable for the status (expert/student) of the participant. Grey bars: coefficient significant on 10% level.



Concerning the overall assessment of integrity, evaluations of students are driven by a more balanced combination of the five attributes than evaluations of experts who strongly concentrate on the key factors *reputation* and *accountability efforts*. For students, a *high reputation* (coefficient = 3.531; $p < 0.01$) or *high voluntary accountability efforts* (coefficient = 4.456; $p < 0.01$) were stand-alone not sufficient for an overall positive judgment. Thus, experts deploy a simpler decision model than students.

2.1.6 Discussion and Conclusion

The objective of our study was to better understand how SVC investors assess the integrity of social entrepreneurs during their selection process prior to making an investment decision. As shown by Scarlata and Alemany (2009), the social entrepreneur is the most important selection criterion for SVC investors underlining his pivotal role for the success of a social enterprise. In this context, integrity of a social entrepreneur is a personality trait that is particularly relevant for a SVC investor. The entrepreneur pursues a double bottom line consisting of social as well as economic goals and the risk of mission drift by the social entrepreneur towards the financial return dimension may exist. In addition, social impact is difficult to measure and to monitor which may lead to high information asymmetries for the SVC investor. Integrity can act as an important signal for the SVC investor that the entrepreneur will use the provided capital to follow his social mission over the long term.

Our aim is to tap into the black box of how integrity is evaluated by SVC investors. We explore the importance of five attributes for assessing integrity: the entrepreneur's personal experience, professional background, voluntary accountability efforts, reputation and awards/fellowships granted to the entrepreneur. We obtained our results by conducting a conjoint analysis with 40 SVC investors and 40 students. It is often criticized that conjoint analyses do not adequately portray decision tasks (Shepherd & Zacharakis, 1999) since artificial decisions are simulated (Böhler & Scigliano, 2009). However, the evaluation of profiles has an advantage over questions asked in surveys or interviews about the preferences of the participants because recall and post-hoc rationalization bias of the participants are reduced (Riquelme & Rickards, 1992). Construct validity is another limitation which often appears in conjoint experiments because the criteria are predefined and cannot be selected by the participants (Shepherd & Zacharakis, 1999). We validated our criteria in interviews with five experts prior to the experiment in order to avoid this shortcoming.

Our findings indicate that the assessment of integrity by SVC investors is mainly driven by two attributes. First, voluntary accountability efforts such as disclosures of reports, corporate governance structures or other forms of external control are of high relevance. The second attribute is the reputation of a social entrepreneur. For an overall positive judgment of integrity, it was sufficient if either accountability efforts or reputation of the social entrepreneur are high. Of minor importance were third party certifications such as awards or fellowships granted to the social entrepreneur as well as his personal experience with the social issue addressed by his venture and his professional background. For professional background, we found that participants from the social sector have a preference for social entrepreneurs from the same sector. Overall, we find that the assessment of integrity is balanced between attributes related to the entrepreneur and external judgments. A comparison of the results of SVC investors and students indicates that experience influences the assessment of integrity. Experienced SVC investors strongly concentrate on the key factors accountability efforts and reputation, whereas evaluations of students are driven by a more balanced combination of all five attributes.

Our study has implications for SVC investors, social entrepreneurs and policy makers in general. Our results show a high degree of consistency in how SVC investors evaluate integrity mainly based on accountability efforts and reputation. This can be useful for new players entering this investment arena to benchmark their own investment criteria against the ones of experienced market participants. However, our results have to be treated with caution. While we are able to explain what kind of constructs SVC investors use to evaluate integrity, it is not possible to link our results to the ex-post behavior of the entrepreneur. In order to make normative recommendations to SVC investors, additional research is required. It would be interesting to further analyze whether social entrepreneurs which were selected based on reputation and/or voluntary accountability efforts in fact showed integrity during the investment phase.

For social entrepreneurs, our results are helpful in understanding how they are being judged by SVC investors. In particular, the findings portray the advantages of voluntary accountability efforts. In preparing and publicizing company reports voluntarily, social entrepreneurs force themselves to formally communicate their past performance and planned initiatives. This can improve the communication with outsiders such as SVC investors. Furthermore, social entrepreneurs that are willing to allow outside monitoring, e.g. through the establishment of an advisory board, are required to establish structured internal processes. Through the collaboration with external advisors, levers to improve the performance of the social enterprise are potentially uncovered. In addition to these benefits, our study shows that social entrepreneurs can also gain a positive signaling effect through voluntary accountability efforts. The integrity of social entrepreneurs as perceived by the SVC investor is higher if they have established voluntary accountability efforts.

The social investment market is steadily growing and governments have also increased their presence in the arena of funding social enterprises. Examples are fund of funds initiated and supported by the European Union or national initiatives such as Big Society Capital, a wholesale social investment bank in the UK, or the co-investment model for SVC investments established by the KfW Bank in Germany.[33] Even though these governmental institutions do not undertake direct investments, it is still important for them to understand the decision models applied by the SVC funds they invest in.

Important research questions on the relationship between SVC investors and social entrepreneurs remain unanswered. We explained that there is a risk of mission drift as social enterprises pursue a double bottom line. It would be interesting to empirically investigate factors that shape this risk of mission drift. In particular, a mission drift may even be induced by SVC investors themselves (Milligan & Schöning, 2011). In this context, it would be

[33] For further information please refer to: http://www.bigsocietycapital.com/; http://www.selnet-uk.com/index.php?option=com_content&view=article&id=364:european-commission-announces-plans-for-90m-social-enterprise-fund&catid=76:urgent-news&Itemid=37; https://www.kfw.de/Download-Center/Förderprogramme-(Inlandsförderung)/PDF-Dokumente/6000002294-Merkblatt-Programm-zur-Finanzierung-von-Sozialunternehmen-091.pdf.

relevant to understand the impact of SVC investors, e.g. through changes in the governance structure of the social enterprise, on the double bottom line targeted by the social entrepreneur.

2.2 Essay 2 – Social Investing: What Matters from the Perspective of Social Enterprises?

Abstract

This essay analyzes how social entrepreneurs evaluate the central non-financial features of social venture capital investors. Based on an experiment with 44 social entrepreneurs, we assess their perception of five attributes for evaluating investor attractiveness: business advisory, network access, information rights, control rights, and reputation of the investor. Our analysis of 1056 decisions reveals that the investor's reputation is the single most important criterion and that the positive effect of support provided through business advisory and network access strongly outweighs the negative effect of oversight via information rights and control rights. Our findings indicate that social entrepreneurs perceive the behavior of social venture capital investors as steward-like rather than principal-like.

Keywords: Social venture capital, social enterprise, conjoint analysis, stewardship theory, agency theory

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2.2.1 Introduction

The arena of social entrepreneurship has received growing scholarly and public attention in recent years (Certo & Miller, 2008; Hall, 2013). Social enterprises address a social problem by leveraging market-based mechanisms and thereby aim for both social and financial returns (Austin et al., 2006; Bagnoli & Megali, 2009; Certo & Miller, 2008; Dees & Anderson, 2004). Along with the evolvement of social enterprises, new financing approaches have been developed that target social enterprises as funding objects (Letts et al., 1997; Moody, 2008). Social venture capital (SVC) represents a well-established investment model in that field that has displayed substantial growth rates in recent years (Hehenberger, 2012).[34] SVC investors adopt their investment approach from the venture capital (VC) industry (Scarlata & Alemany, 2012): They apply an intense selection process to identify investment targets and pursue a high-engagement approach, including support beyond the mere provision of funds, as well as certain oversight activities once invested (Nicholls, 2010a). By combining social with financial return expectations, social enterprises and SVC investors operate within the interstices of the business and social sectors and therefore represent an important and novel area of study (Harris, 2012; Kraatz & Block, 2008; Strom, 2010a).

Due to their long-term commitment and extensive non-financial involvement, SVC investors enter into a close relationship with their investees. Scholars already addressed that relationship, focusing on the perspective of SVC investors and how they select investment targets (e.g., Achleitner, Lutz, Mayer & Spiess-Knafl, 2013; Miller & Wesely, 2010; Scarlata & Alemany, 2009). We apply a change of perspective and ask how social entrepreneurs evaluate the central non-financial features of funding by SVC investors. It is necessary to gain

[34] The number of members of the European Venture Philanthropy Association, for instance, increased from 36 in 2006 to over 150 in 2012.

an understanding about the preferences of social enterprises, since the selection of financing partners is a two-way street and the bargaining position of social enterprises has strengthened due to recent developments: Numerous funds have been set up worldwide, providing a diverse array of funding offers with an amount of capital committed already surpassing €1 billion in Europe (Hehenberger, 2012). At the same time, the number of social enterprises that offer investment opportunities beyond grant funding is still limited (Koh, Karamchandani, & Katz, 2012). In addition to this surplus in supply, Heister (2010) provides evidence that the probability of social entrepreneurs withdrawing their funding requests increases up to 30% during the selection process, inducing high transaction costs on the investor's side. Promising social enterprises hence seem to be able to choose among various investment offers or to decide not to take on any funding by investors but to rely, for instance, on grant funding and sponsoring instead.

In addition to an imbalance in the perspective taken, previous studies lack a clear theoretical framing. They focus on aspects that can be transferred from the VC world (Miller & Wesley, 2010; Scarlata & Alemany, 2009) or on specific personal characteristics of the social entrepreneur (Achleitner, Lutz, et al., 2013) but do not embed their findings within a theoretical context of the relationship between investor and investee.

Our study presents a modest start to detect how social entrepreneurs evaluate the SVC funding model. We aim to capture the importance of five attributes for assessing investor attractiveness: business advisory, network access, information rights, control rights, and reputation of the investor. Business advisory and network access are classified as support while information rights and control rights are categorized as oversight activities. By comparing perceptions of support and oversight, we link our results with the perspectives of agency theory and stewardship theory. While the former emphasizes oversight activities as a mechanism to mitigate agency conflicts (Jensen & Meckling, 1976), the latter suggests a relationship that is characterized by supportive involvement (J. H. Davis et al., 1997). Our methodological approach allows us to detect how both dimensions are interrelated, put differently, how support and oversight are evaluated compared to one another. We thereby aim to answer whether social entrepreneurs perceive the behavior of SVC investors as explained more by agency theory or by stewardship theory.

We conduct a conjoint analysis with 44 social entrepreneurs from all over Europe, testing for the importance of the aforementioned attributes. All participants were familiar with the SVC investment model, as they had already received funding by a SVC investor in the past. Based on 1056 decisions, we find that social entrepreneurs use all five attributes to a significant extent when evaluating investor attractiveness. They attach the highest importance to reputation, followed by network access and business advisory. Information rights and control rights have only a minor negative impact on the overall assessment of investor attractiveness. When controlling for conditional factors, we find that experience significantly influences judgment: More experienced social entrepreneurs strongly focus on reputation, whereas relatively novice social entrepreneurs perceive business advisory as most important.

Our study provides three major theoretical contributions. First, we complement research on the relationship between investor and investee by focusing on the entrepreneur's point of view instead of the investor's. In particular, we theorize the relationship between investor and investee within the nascent SVC market. Since the positive effects of support strongly outweigh the negative effects of oversight, we conclude that social entrepreneurs perceive the behavior of SVC investors as characterized by stewardship theory instead of agency theory. Our findings might have important contributions for traditional entrepreneurship literature, where evidence on the entrepreneur's point of view is also scarce (G. Smith, 1999; Valliere &

Peterson, 2007). In addition, the findings might be relevant for the social sector, where the number of foundations pursuing the high-engagement approach of the SVC model is steadily increasing (John, 2006). Second, our study is one of the rare quantitative empirical studies in the social entrepreneurship arena and thus contributes to the growing body of research in this area. It serves to identify peculiarities that set social entrepreneurs apart from business entrepreneurs. Third, we extend theory on the SVC investment model: We indirectly observe the behavior of SVC investors that is reflected in the perception of their key activities by social entrepreneurs. From a practical viewpoint, we contribute to an advanced understanding of the nascent social investment market, where transaction costs are high and best practice approaches are lacking.

The essay is organized as follows: In section 2.2.2, we provide theoretical background on social enterprises and SVC investors. We then derive hypotheses on the attributes used to evaluate investor attractiveness. Section 2.2.4 outlines method and sample. We then present our empirical results in section 2.2.5, followed by a discussion of our findings and concluding remarks.

2.2.2 Social enterprises and social venture capital investors

Viewed historically, social entrepreneurship does not constitute a new phenomenon (Hall, 2013). However, the number of newly founded social enterprises has risen significantly in recent years (Kerlin, 2012). Social enterprises provide a good or service to solve a social problem not previously addressed or not effectively tackled (Mair & Marti, 2006). Although social enterprises differ in their ability to be financially self-sustaining due to of various levels of ability to pay among their customers (Seelos & Mair, 2005), generating own revenues is widely considered to be a key feature of social enterprises (Austin et al., 2006; DiDomenico, Haugh, & Tracey, 2010). Thus, social enterprises strive for social and financial returns, which is often referred to as a double bottom line approach. Referring to this, social enterprises are often said to span the sectorial boundaries of the business and social sectors (Dart, 2004; Dees, 1998b). The double bottom line approach is illustrated by the following example. Specialisterne, an information technology consulting company, provides job opportunities to people with autism, capitalizing on the unique characteristics of autism spectrum disorders. Specialisterne pursues a social mission by employing autistic people but departs from approaches that rely heavily on subsidies, such as sheltered workshops, and focuses on own income strategies instead.

To acquire the resources needed for their growth ambitions, social enterprises can draw on SVC investors. These investors provide financial support to social enterprises while using strategies similar to those of traditional VC investors: They apply an intense selection process before making an investment decision and support as well as monitor the social enterprises on an ongoing basis during the investment period (Grenier, 2006; John, 2006). They use equity and equity-like capital as financing instruments and aim to maximize the social impact of their investments besides striving for a certain rate of financial return (John, 2006).[35] The simultaneous pursuit of social and financial return expectations constitutes the differentiating factor in comparison to traditional VC investors (Scarlata & Alemany, 2012). Hence, SVC investors also operate at the fringes of the business and social sectors. Similar to social enterprises and SVC investors, an increasing number of organizations are positioning themselves within the interstices of pre-defined sectors (Kraatz & Block, 2008; Strom, 2010a). Some scholars describe such organizations as truly entrepreneurial because they

[35] In this essay only SVC investors using equity or equity-like capital as financing instruments are included. The authors assume a different relationship if the investor finances a social enterprise via equity as compared to using grants. One reason for this is that equity investments are mostly linked to shifts of control rights.

develop novel approaches by combining principles from several spheres (Stark, 2009), an aspect that makes organizations of this type particularly relevant for research.

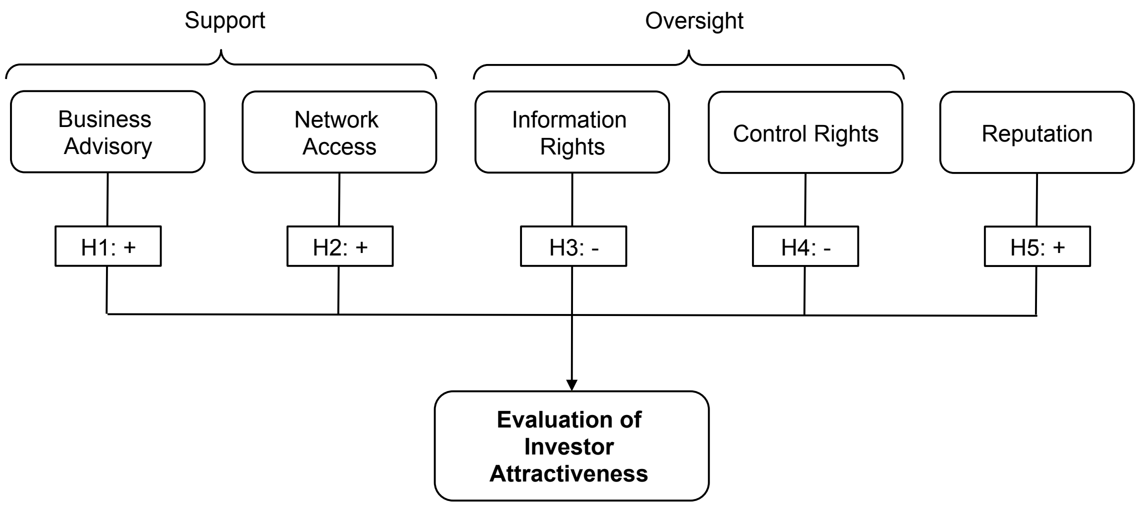
There is no evidence yet as to which theory characterizes the relationship between SVC investors and social enterprises. The assumption underlying the definition of SVC is that SVC investors and traditional VC investors face similar issues. Hence, the considerations of VC scholars can serve as a starting point: They predominantly apply agency theory to explain the relationship between VC investors and entrepreneurs (Kaplan & Strömberg, 2001; Norton, 1995). Agency theory is based on economics and assumes that both principal and agent are self-seeking individuals pursuing divergent utility functions (Jensen & Meckling, 1976). However, the applicability of agency theory in the VC context has been questioned and stewardship theory has been proposed as an alternative framing (Arthurs & Busenitz, 2003). Stewardship theory adopts a psychological perspective and assumes that individuals are motivated by not only their own interests but also altruism, helpfulness, and generosity and therefore suggests that contracting parties might behave pro-organizationally, which would preempt potential agency conflicts (J. H. Davis et al., 1997).

Due to the social goal setting of SVC investors and social enterprises, one could expect the individuals who work for such types of organizations not to be self-seeking but, rather, to act out of higher-order needs and to behave caringly. However, the double bottom line approach makes conflicts more probable in the SVC context than in the VC context, where the goal setting of investor and investee is singular. This is due to a potential trade-off between social and financial return. A conflict could arise if the SVC investor and the social entrepreneur do not view the two return dimensions in an equal weighting. Divergent goal settings could lead to a mission drift of the social enterprise. Thus, it is hard to say whether SVC investors and social enterprises are confronted with an agency setting or a stewardship setting based on theoretical considerations. A better understanding of this relationship is highly relevant for two major reasons. First, in the case of an agency setting, new strategies for solving agency conflicts would be necessary, since traditional approaches such as monitoring or incentives via compensation are less effective than in the case of traditional VC investors due to difficulties in performance measurement (Van Puyvelde, Caers, Du Bois, & Jegers, 2012), as well as divergent goal settings. Second, a better understanding of the relationship might yield better results, since both parties might have clearer expectations of what they are buying into when entering into a contract. This holds especially for mutual stewardship relationships in which transaction costs are low due to the mutual trust of the contracting parties (J. H. Davis et al., 1997).

The following introduces the central non-financial aspects of SVC investors through which they express their relationship with their investees: support and oversight activities. In addition, the investor's reputation is included. The attributes are derived from the VC literature, since SVC investors adopt the investment model of VC investors. By comparing the perception of support and oversight activities, we aim to determine whether social enterprises perceive the behavior of SVC investors as driven by agency theory or stewardship theory. Figure 2-6 gives an overview of all the hypothesized effects.

Figure 2-6: Research model and hypotheses

This figure shows the attributes that might be used by social entrepreneurs to evaluate the attractiveness of SVC investors. The plus and minus signs indicate the hypothesized effects of a high parameter value on the overall assessment.



2.2.3 Criteria to assess investor attractiveness

2.2.3.1 Support by social venture capital investors

This section covers SVC investors' support of social enterprises, via two attributes: business advisory and network access. Since young enterprises are faced with severe resource constraints (Park & Steensma, 2012), investors can add value by either providing human capital themselves or extending their social capital to entrepreneurs.

We refer to the provision of human capital as business advisory (Brainerd, 1999; Hellmann & Puri, 2002). Business advisory focuses on areas that are often underdeveloped in young, innovative firms, such as those focusing on financial, administrative, marketing-related, strategic, and organizational topics (Luukkonen, Deschryvere, Bertoni, & Nikulainen, 2011; Timmons & Bygrave, 1986). Business entrepreneurs tend to perceive some types of advisory services as slightly more important than the mere provision of capital (Sapienza, Manigart, & Vermeir, 1996). In the field of social entrepreneurship, John (2007b) also arrived at the conclusion that investees appreciate coaching and mentoring. Regarding the intensity of business advisory, great variance in terms of time spent with portfolio organizations can be observed among VC investors (Fried & Hisrich, 1994; Welpe, 2004). It seems that greater effort on the part of the VC investor in terms of time and face-to-face interaction devoted to portfolio organizations is directly associated with greater perceived added value (Luukkonen et al., 2011; Sapienza et al., 1996). The intensity of business advisory in terms of frequency and contact level also varies among SVC investors, from 10% of funds being in weekly contact with their investees to 5% having only yearly exchanges (Hehenberger, 2012). Based on the benefits perceived by business advisory, we derive the following hypothesis.

Hypothesis 1: Social entrepreneurs evaluate SVC investors as more attractive when they offer high levels of business advisory.

VC investors can facilitate access to third parties by extending their social capital (Luukkonen et al., 2011). Important contacts include additional funding sources, potential customers and suppliers, partners for cooperation and alliances, employment candidates, as well as professional service providers such as lawyers, accountants, or consultants (Ehrlich, De Noble, Moore, & Weaver, 1994; Fried & Hisrich, 1994; Gorman & Sahlman, 1989; MacMillan, Kulow, & Khoylian, 1989). Contacts to other investors are often seen as most important (Gorman & Sahlman, 1989). Due to the entrepreneur's lack of track record (Sweeting & Wong, 1997), young ventures often have difficulties obtaining necessary resources, such as additional funding (Gorman & Sahlman, 1989; Stuart, Hoang, & Hybels, 1999). Studies indicate the same vital need for obtaining additional funding via investor contacts for social enterprises (Buteau, 2008; John, 2007b). Generally, social enterprises are found to appreciate third-party support (Hehenberger, 2012; John, 2007b; M. Martin & John, 2006). We therefore formulate the following hypothesis.

Hypothesis 2: Social entrepreneurs evaluate SVC investors as more attractive when they provide many contacts via network access.

2.2.3.2 Oversight by social venture capital investors

The second dimension of investor involvement explores oversight along the attributes of information rights and control rights claimed by SVC investors. Since the relationship between an SVC investor and its investees is affected by a high degree of information asymmetry, oversight can be seen as a mechanism to mitigate the information disadvantage on the part of the investor (Lerner, 1995; Sapienza et al., 1996).

Information rights are of a static nature and aim to convey comprehensive reporting on financial as well as operational performance to the investor on a regular basis (Kaplan & Strömberg, 2004; MacMillan et al., 1989). The terms and scope of the required information are usually specified in the investment contract. Reporting duties require significant effort from the entrepreneur, taking away time dedicated to other activities (Ehrlich et al., 1994). In addition to their financial and operational performance, social enterprises also need to report on their social achievements, which is challenging due to the issues involved with measuring social impact (Berresford, 2003; Emerson, 2003). Social entrepreneurs tend to perceive the reporting requirements of their investors as too high and costly compared to the funds received (Keystone, 2013). Since social entrepreneurs ask themselves if the assistance received is worth the resources spent on reporting (Herrold, 2006), we derive the following hypothesis.

Hypothesis 3: Social entrepreneurs evaluate SVC investors as less attractive when they require strong information rights.

Beyond reporting, VC investors also exercise oversight via control rights by adjusting the governance mechanisms of their portfolio organizations (Sapienza et al., 1996), for instance, by requiring a board seat (Lerner, 1995). Whereas VC investors themselves think that serving as a board member can significantly add value, entrepreneurs often perceive their investors' board membership as adding little to no value and thus resent the intrusion (Sapienza et al., 1996). In addition, conflicts of interests might influence the decision-making of VC investors in favor of their own exit-oriented interests as opposed to strategies benefiting the funded enterprise in the long term. SVC investors also often require a seat on the board of their investees (Achleitner, Lutz, et al., 2013; M. Martin & John, 2006). In this context, social entrepreneurs sometimes fear mission drift away from social objectives induced by their investors due to a short-term orientation toward quick financial returns (Berresford, 2003; Milligan & Schöning, 2011). We conclude that the fear of losing control constitutes a drawback of SVC investments, and therefore formulate the fourth hypothesis.

> *Hypothesis 4: Social entrepreneurs evaluate SVC investors as less attractive when they require strong control rights.*

2.2.3.3 Reputation as a characteristic of social venture capital investors

In addition to support and oversight activities, we consider reputation as a characteristic of SVC investors. Reputation refers to outsiders' perception of the investor and is based on past behavior (Fombrun, 1996). Soft factors, such as reputation, might gain particular relevance in nascent and intransparent markets such as the social entrepreneurship arena, where performance measurement is difficult (Emerson, 2003) and traditional market mechanisms such as competition often do not exist (Zahra et al., 2009).

Various studies have analyzed the role that the reputation of VC investors plays for investees: Fried and Hisrich (1994) show that highly reputable VC investors might transfer their positive image to their investees. It is argued that an association with a highly reputable investor serves as collateral for the entrepreneur, which might reduce transaction costs for future resource acquisitions and facilitate venture growth (Handy, 1995). The endorsement and certification linked to a partnership with a highly reputable investor might reduce uncertainty, increase legitimacy, and therefore render the organization more attractive to resource providers (Stuart et al., 1999). Hsu (2004) provides evidence that entrepreneurs are willing to accept a discount on their valuation to achieve an affiliation with a highly reputable VC investor. This reasoning leads to the fifth hypothesis.

Hypothesis 5: Social entrepreneurs evaluate SVC investors as more attractive when they have a high reputation.

2.2.4 Method and sample

2.2.4.1 Method

We used metric conjoint analysis to determine how the elaborated attributes jointly drive the evaluation of SVC investors by social entrepreneurs. In a conjoint experiment, profiles that describe – in our case – hypothetical SVC investors are presented to participants. The profiles contain certain values of the attributes that constitute the independent variables upon which decisions are based (Shepherd & Zacharakis, 1999). Participants rate the profiles on a predefined Likert scale from which their decision-making behavior is deduced. We use conjoint analysis instead of post-hoc methodologies such as interviews or surveys to avoid biases due to recall or post-hoc rationalization (Shepherd & Zacharakis, 1999). In addition, Valliere and Peterson (2007) show that entrepreneurs are poor at introspection when it comes to investor evaluation. Conjoint analysis enables us to capture decision policies as they are being implemented. The results indicate the significance levels of the attributes tested, as well as the relative importance of each criterion for decision-making. Thus, conjoint analysis allows for a meaningful comparison of the attributes beyond a mere ordering of their importance.

2.2.4.2 Sample and data collection

The participants were located all over Europe. In total, the chief executives of 103 social enterprises were contacted and 44 agreed to participate in our study. This represents a response rate of 43%. We identified potential participants by screening the portfolios of intermediaries in the sector (e.g., investors or advocacy organizations). The directory of the EVPA and the participants' list of the Expert Group on Social Business of the European Union were used to identify intermediaries. Overall, 55 intermediaries were contacted and asked to recommend participants for our study. To ensure that the participants were familiar with the SVC funding model, we considered only social enterprises that had already received an investment by a SVC investor. We targeted the chief executives of the social enterprises, who, in most cases, were also the founding entrepreneurs. Most of the participants were male (90%). The social enterprises they work for have, on average, received investments from 4.5 investors (standard deviation 4.9, median 2.5), have an average annual budget of €3.9 million (standard deviation €10.3 million, median €0.6 million), and most have a non-profit organizational model (45%) (compared to for-profit: 20%, and combinations of non-profit and for-profit: 34%).

Table 2-6: Sample characteristics

Participants				
Gender	Male, N = 40	Female, N =4		
Age	< 30, N = 3	30-39, N = 18	40-49, N = 11	> 50, N = 12
Social Enterprises				
Age	Ø 9.04 (SD 13.12; Median 4)			
Annual budget	3.87 Mio EUR (SD 10.31; Median 0.54)			
Legal form	Non-profit, N = 20	For-profit, N = 9	Combination of for-profit / non-profit, N = 15	
# external investors	Ø 4.5 (SD 4.89; median 2.5)			

We guided all participants through a web implementation of our experiment via phone. Prior to the rating exercise, we explained the scenario that should be taken as given for the experiment. Specifically, participants were told to evaluate the attractiveness of SVC investors whose investment focus corresponded to their area of operations and whose typical investment size matched their funding needs. In addition, they were told to assume a personal fit between themselves and the investment manager in question. The participants then had to rate the profiles according to their perceived level of investor attractiveness on a seven-point Likert scale. We familiarized the participants with the task through the use of a practice profile that was not used in the analysis.

2.2.4.3 Measures and analysis

The dependent variable in this study is the evaluator's perception of investor attractiveness, which is assessed via a seven-point Likert scale anchored by the end points 'very unattractive' and 'very attractive'. The profiles of the hypothetical SVC investors consisted of the five attributes that stem from the theoretical considerations described above. The attributes correspond to the independent variables in our analysis. Each criterion was presented at two levels. Table 2-7 presents a complete definition of all the attributes and the parameter values used in the conjoint analysis.

Table 2-7: Definition of independent variables

Independent variable	Definition	Operationalization
Reputation	Reputation refers to the perception of outside stakeholders of the investor and is based on information about past behavior and accomplishments.	1= high, 0 = not high
Business advisory	Business advisory services refer to helpful and relevant professional support and services provided by the investor himself.	1 = many, 0 = few
Network access	Network access refers to support by an investor by providing the social entrepreneur contacts to relevant and helpful external allies or supporters.	1 = many, 0 = few
Information rights	Information rights correspond to reporting, accounting and disclosure requirements by the investor. Information in this regard includes social and financial aspects.	1 = strong, 0 = weak
Control rights	Control rights, which are usually exercised via boards of directors, refer to requirements of the investor in regard to involve him or her in important management decisions via granting him or her voting rights.	1 = strong, 0 = weak

For five attributes each with two parameter values, there are 32 (2^5) possible combinations for the profiles. We used an orthogonal fractional factorial design to reduce the number of parameter value combinations to make the decision-making task more manageable (Green & Srinivasan, 1978). By exploiting redundancy of excess numbers of interactions, a fractional factorial design results in 16 profiles, which allows to account for all main effects, as well as all two-way interactions. We replicated eight of the 16 profiles to test for the reliability of the participant's assessments. The study provides 24 observations per participant ($\triangleq$ 1056 data points) for the estimation of the coefficients. There may be autocorrelation within the observations because the 1056 assessments are nested within 44 individuals.

Therefore, we use hierarchical linear modeling to analyze the data because it accounts for variance at the level of participants (Raudenbush & Bryk, 2002).

2.2.5 Empirical results

We compute the Pearson correlation coefficients between the original profiles and their replications as a test–retest of reliability. A total of 77% of our sample responded reliably ($p < 0.05$), with a mean correlation of 0.80. This finding is consistent with values published in previous studies (0.72, Choi & Shepherd, 2004; 0.69, Shepherd, 1999). The results in Table 2-8 (Model 1) show that the participants in our sample use all hypothesized attributes to assess investor attractiveness to a significant extent. Perceived investor attractiveness increases with (i) more business advisory (coefficient = 1.128; $p < 0.01$), (ii) more contacts via network access (coefficient = 1.338; $p < 0.01$), and (iii) high reputation (coefficient = 1.520; $p < 0.01$) and decreases with (iv) strong information rights (coefficient = -0.162; $p < 0.1$) and (v) strong control rights (coefficient = -0.673; $p < 0.01$). Thus, H1 through H5 are supported. All attributes besides information rights ($p < 0.1$) are significant at the $p < 0.01$ level. The importance of a criterion is calculated by relating its absolute parameter value to the sum of all absolute parameter values. As Figure 2-7 illustrates, reputation accounts for 31.5%, business advisory for 23.4%, and network access for 27.8% of the overall assessment. Information rights have only a minor negative effect (3.4%) and control rights (14.0%) are also far less important than reputation or one of the support attributes.

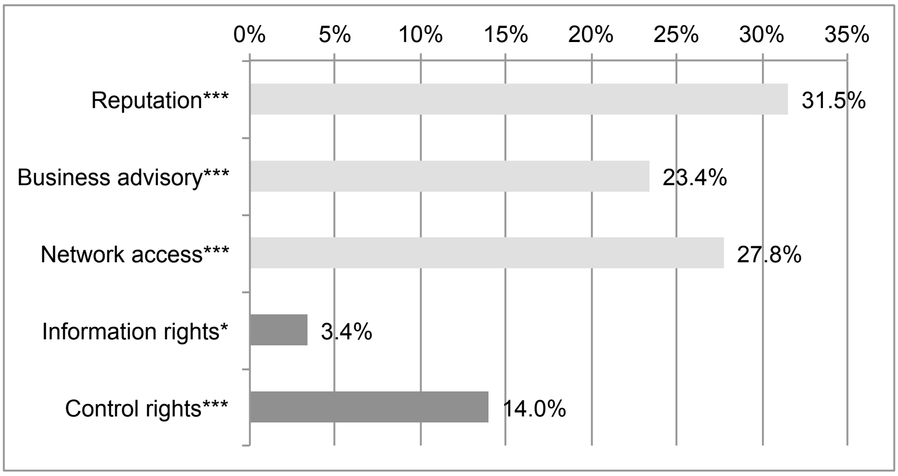
Table 2-8: Regression results

This table presents the results of multilevel mixed-effect linear regressions with the utility value as the dependent variable. The sample is based on real-time experiments with 44 social entrepreneurs based on metric conjoint analysis. Each participant had to rate 24 profiles, leading to a total of 1056 observations. Only 704 data points are used for the estimation of the coefficients. The remaining 352 observations represent replicated profiles. The regression differentiates between variance at the first level, the decision on the attractiveness of an SVC investor (fixed effect), and at the second level, the individual participant (random effect). All the variables were standardized and group centered.* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Independent Variables	**Model 1: Without interaction**				**Model 2: With interaction - Experience**			
	Coeff	**Std err**	**t-ratio**		**Coeff**	**Std err**	**t-ratio**	
Reputation	1.520	0.087	17.480	***	1.177	0.120	9.780	***
Business advisory	1.128	0.087	12.970	***	1.368	0.120	11.360	***
Network access	1.338	0.087	15.390	***	1.356	0.120	11.260	***
Information rights	-0.162	0.087	-1.860	*	-0.132	0.120	-1.100	
Control rights	-0.673	0.087	-7.740	***	-0.656	0.120	-5.450	***
Exp. x Reputation					0.655	0.162	4.040	***
Exp. x Business Advisory					-0.459	0.162	-2.830	***
Exp. x Network Access					-0.034	0.162	-0.210	
Exp. x Information Rights					-0.057	0.162	-0.350	
Exp. x Control Rights					-0.033	0.162	-0.210	
Intercept	2.224	0.135	16.470	***	2.224	0.135	16.540	***
N	704				704			
Log. Likelihood	-1133.43				-1122.60			
Chi²	773.70 ***				822.62 ***			
Degrees of freedom	11				6			

Figure 2-7: Attribute contributions

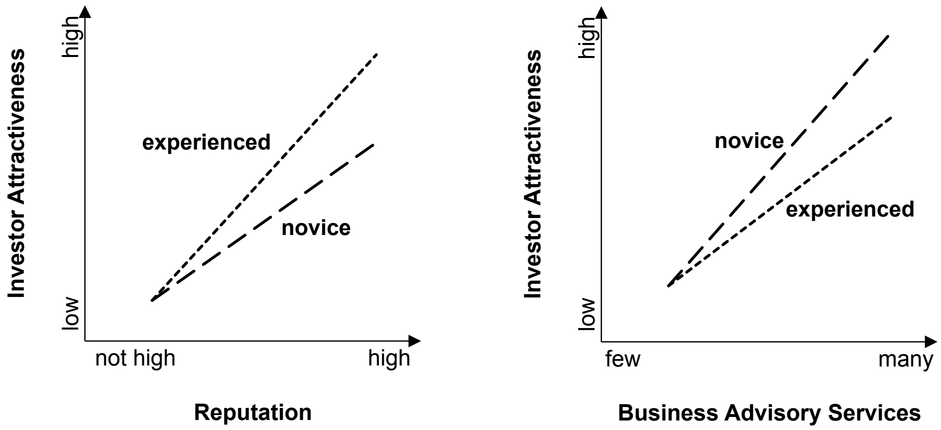
This figure shows the attribute contributions of each independent variable based on multilevel mixed-effect linear regressions. The sample is based on real-time experiments with 44 social entrepreneurs, based on conjoint analysis.



In addition, we analyze the attributes' potential two-way interactions and test for interactions with characteristics of the social entrepreneurs or their enterprises. There are no significant two-way interactions between the attributes. When considering potential conditional factors, we observe that experience significantly influences the applied decision policy. To measure experience we built a scale based on the participant's professional experience and self-assessed experience with the SVC approach. Novice social entrepreneurs (n = 21) received lower overall values for the aforementioned attributes and experienced social entrepreneurs (n = 23) higher values. There are two significant differences between novice and experienced participants: Reputation is more important for experienced entrepreneurs ($p < 0.01$). The opposite is true for business advisory, which is judged as more important by novice participants ($p < 0.01$). To illustrate these significant interaction effects, we plot both independent variables (*x*-axis) against the participants' evaluation of investor attractiveness (*y*-axis) for both subgroups (see). The differences imply that the rank order of the attributes changes with experience. While experienced participants attach the highest importance to reputation, followed by network access and business advisory, novice participants perceive business advisory as the most important and reputation only as the third most important criterion. In addition, Model 2 shows that the negative effect of information rights is not significant when the sample is split, indicating that the effect is not robust.

Figure 2-8: Interaction effects

This figure shows the interaction effects between the participants' experience and their evaluations of investor reputation (left) and between their experience and their evaluations of business advisory services (right).



2.2.6 Discussion

Although financing instruments and structures constitute one of the most popular topics in the literature on social entrepreneurship (Achleitner, Heinecke, Noble, Schöning, & Spiess-Knafl, 2011a; Saltuk et al., 2013), very little is known about the relationship between social enterprises and their investors (Achleitner, Lutz, et al., 2013). In addition, previous studies only cover the relationship from the perspective of investors, neglecting the view of social enterprises (an exception being a practitioner-based report by Keystone, 2013). Our essay aims to address this research gap by tapping into the black box of how social entrepreneurs evaluate the central non-financial features of SVC investors. By taking social enterprises and SVC investors as our study subjects, we position our research in between the business and social sectors. This aspect supports the proposition that the relationship between SVC investors and social enterprises may be different from other contractual relationships and thus highlights the relevance of our study.

We assess the importance of five attributes – business advisory, network access, information rights, control rights, and reputation – for evaluating investor attractiveness by conducting a conjoint analysis with 44 social entrepreneurs from all over Europe. All attributes besides information rights have a strong significant influence on the evaluation of investor attractiveness. Reputation is judged as the most important criterion, accounting for almost one-third of the overall decision, and the benefits of support via business advisory and network access are perceived as a lot more important than the detriments of oversight via information rights and control rights.

The rank ordering and weighting of the evaluated attributes allow us to draw interesting conclusions about the relationship between SVC investors and social enterprises, as well as about the underlying theoretical framework. Since the SVC approach is derived from the VC model, we could expect an agency setting (Scarlata & Alemany, 2012). Agency theory would have suggested that SVC investors pursue many oversight functions to reduce information asymmetries (Jensen & Meckling, 1976). They would also provide support to social entrepreneurs. However, they would not address social entrepreneurs on a level playing field but would behave rather condescendingly. Translated into the perception of social entrepreneurs, we expect they would feel severely constrained by oversight activities: The joint negative effect of control rights and information rights would at least compensate the positive effect of business advisory and network access, if not even outweigh it.

Our findings are in contrast with what is suggested by agency theory. The participants attach great importance to the positive effects of support and only minor importance to the negative effects of oversight: The overall positive effect of business advisory and network access compensates almost three times the joint negative effect of information rights and control rights. We deduce that social entrepreneurs perceive a strong sense of empowerment by their investors. This finding is in line with what is suggested by stewardship theory: SVC investors in a stewardship setting would set the focus of their involvement on supporting their portfolio companies. They would also pursue oversight activities, but more as an equal partner, supervising rather than controlling (Van Slyke, 2007), serving, for instance, as sounding board members. From the social entrepreneur's point of view, this implies that they feel strongly empowered by the support provided and would not perceive oversight activities as very constraining. They might even see an opportunity in strong information rights to scrutinize their impact value chain or perceive a value add by external management advice from board members. Thus, the positive effect of support outweighs the negative effect of oversight in a stewardship setting. We conclude that social entrepreneurs' perception of SVC investors' behavior corresponds with what is predicted by stewardship theory instead of what is predicted by agency theory. The importance of reputation blends in well with the perception of a stewardship setting, since stewardship relationships are based, amongst others, on reputation and stewards perceive the reputational enhancement they achieve from association with a highly reputable partner as an intrinsic reward (Van Slyke, 2007).

To test whether the relationship between SVC investors and social enterprises indeed corresponds with stewardship theory, we would need to analyze the actual behavior of SVC investors. Our study only allows us to derive how social entrepreneurs perceive that behavior, a view that does not necessarily match their real bearings. In addition, we would need to study the behavior of social entrepreneurs, because a true stewardship case only exists if both sides of a relationship behave similarly (J. H. Davis et al., 1997). In case of a true stewardship relationship, both parties benefit from "reduced opportunism, higher levels of trust and lower transaction costs" (Witesman & Fernandez, 2013, p. 690), which leads to better results than agency relationships (J. H. Davis et al., 1997).

The decision policies of social entrepreneurs deviate from what is suggested by the VC literature. Valliere and Peterson (2007) used an approach similar to ours to assess how for-profit entrepreneurs evaluate the central features of VC investors. Terms and conditions (excluding valuation), which correspond to oversight activities, were the most important criterion for the entrepreneurs' evaluation, more important than reputation and almost twice as important as support via value-added services. In addition, business entrepreneurs are said to have major difficulties when they have to transfer control rights to investors (Wasserman, 2008). Some might even forego growth to keep control, a phenomenon often referred to as the dilemma of growth versus control (Wasserman, 2008). In contrast, the social entrepreneurs in our sample only attributed a minor negative effect to strong control rights of their investors, and thus did not seem to display the same control aversion as business entrepreneurs. This deviation might partly be explained by the fact that social entrepreneurs do not aim to maximize their own financial return and, thus should not have an issue with transferring ownership rights, which are inherently linked to control rights. Our findings are also different from what is expected in the social sector, where oversight is said to severely reduce work effort because it is perceived as a signal of distrust (Hyndman & McDonnell, 2009; Van Slyke, 2007). Thus, SVC investors and social enterprises, who both operate within the interstices of the business and social sectors, seem to develop novel approaches in terms of the investor-investee relationship. One explanation for this finding may be rooted in the definition of social entrepreneurs, who are said to have the ultimate goal of making themselves superfluous because they have accomplished their mission (Drucker, 1990; Jansen et al., 2010). Alternatively, it could be argued that social entrepreneurs perceive the costs they pay by accepting information rights and control rights as very low compared to the benefits received via financial and non-financial support by SVC investors. However, further studies are needed to test the underlying reasoning.

Our results also confirm that social entrepreneurs do not represent a homogeneous group, which is demonstrated by the fact that their evaluations differ significantly with respect to their experience levels: Compared to more novice social entrepreneurs, more experienced social entrepreneurs placed less importance on the value added by business advisory and focused instead on the rewarding effect of a highly reputable investor. There are two conceivable explanations for such a shift in preferences. First, the differences might reflect divergent necessities by social entrepreneurs. Novice entrepreneurs might have greater demand for direct support in the form of business advisory as opposed to indirect support by means of positive investor reputation. Second, the lesser importance of value-adding activities might be due to a disillusioning effect of experienced social entrepreneurs if they do not perceive the direct support provided by their investors as very helpful and, therefore place more emphasis on the indirect support received via associating themselves with highly reputable investors. Future research could capture further conditional factors that influence decision-making when evaluating investor attractiveness.

Our methodological approach has certain limitations. Conjoint analysis is often said to suffer from construct validity due to the preselection of attributes (Shepherd & Zacharakis, 1999). We validated our attributes in interviews with six experts (two SVC investors, two social entrepreneurs, and two academic experts) to avoid this shortcoming. In addition, conjoint analysis only allows for a certain number of attributes. Further studies are needed to split our rather broad attributes into more fine-grained sub-attributes to analyze which aspects are particularly valued by social entrepreneurs. Network access could, for instance, be split into access to other investors, to potential employees, and to business partners. Furthermore, our results must be treated with caution, since we are not able to link our findings on perceived investor attractiveness with actual post-investment success. Put differently, we are not able to make normative recommendations on how SVC investors should behave or how social entrepreneurs should select their investors.

2.2.7 Conclusion

Our results provide evidence suggesting that SVC is a promising investment approach in the nascent social investment market, since the social entrepreneurs participating in our experiment evaluated it quite positively. Our results provide an opportunity to identify sources of differentiation among SVC investors, since "financial capital per se is not a differentiated good" (Hsu, 2004, p. 1834). For instance, SVC investors should focus on promoting their support activities when entering into negotiations with potential investment targets.

Overall, our area of research is gaining relevance as more and more organizations are moving into fields where sectors overlap and where theoretical framings therefore need to be reviewed and potentially reframed.

2.3 Essay 3 – Navigating Institutional Pluralism: Attributes and Practices of Governing Boards in Hybrid Organizations

Abstract

Hybrid organizations operate in a context of institutional pluralism and enact elements of multiple, often conflicting institutional logics. Governance is of high relevance when navigating in such an environment. In setting their governance framework, hybrids have to decide whether they operate according to multiple logics or whether they stick to a 'dominant' logic. We examine how hybrid organizations' identification with existing institutional domains affects their behavior in setting up governance structures and functions. Using survey data from 70 social enterprises, a subset of hybrid organizations, we find two types: Conforming hybrids, which express a strong identification with either the business sector or the social sector, adopt existing principles from the relevant institutional domain, and thus act in conformance with a single logic. In contrast, dissenting hybrids, which do not identify strongly with a single institutional domain, combine and enrich prescriptions from several institutional logics and thereby depart from existing practices.

Keywords: Institutional pluralism, hybrid organization, social enterprise, governance, board of directors

JEL Classification Code: L31, M13

Authors: Mayer, Judith; Mair, Johanna; Lutz, Eva

Current Status: Under Revision (4th round) in *Organization Studies*

Accepted for presentation at CGIR Conference on Corporate Governance Bundles 2012

Accepted for presentation at NYU Stern Social Entrepreneurship Conference 2012

Based on this research, a practitioner's guide on governance of social enterprises was compiled and published jointly with the Schwab Foundation (Achleitner et al., 2012)

2.3.1 Introduction

Over the past few years, hybrid organizational forms have been intensely discussed among practitioners across the public, business and social sectors as well as among policy makers (Economist, 2009; Strom, 2010a). Hybrid organizations have also received growing attention from researchers, organizational scholars in particular (Billis, 2010a; Brandsen, van de Donk, & Putters, 2005; Kraatz & Block, 2008; Reay & Hinings, 2009). From an institutional perspective, hybrid organizations represent an important area of study. They do not fit neatly into established categories of organizational fields or sectors, but rather operate in a context of institutional pluralism (Kraatz & Block, 2008) and embody multiple institutional logics through their organizational structure and behavior (Dunn & Jones, 2010). Although the concept of institutional logics has gained considerable traction recently, it remains a contested term (Friedland, 2012; McPherson & Sauder, 2013). The term *institutional logics* was originally introduced to depict macro-level belief systems that shape cognition and behavior within a societal sphere (Friedland & Alford, 1991). Management scholars have applied it to denote shared patterns of actions, scripts for behavior, and characteristics of distinct organizational fields or sectors (Ocasio, 1997; Thornton, 2004). For organizations, these supra-organizational logics represent taken-for-granted prescriptions (Battilana & Dorado, 2010) that affect decisions about which goals to pursue and determine what constitutes legitimate activity (Thornton, 2004).

The implications for organizations of being 'logically plural' are not well understood. Complying with multiple, often conflicting logics can lead to goal conflicts, instability, and incoherence (Heimer, 1999; Stryker, 2000; Yu, 2013). Yet research suggests that operating in institutional interstices (Rao, Morrill, & Zald, 2000) also opens up opportunities (Kraatz & Block, 2008). By combining multiple logics (i.e., considering multiple prescriptions), organizations might be able to gain access to a broader set of resources and expand their repertoire of practices, which allows them to be innovative, to create new products and services, and also to pioneer new ways of organizing (Meyer & Rowan, 1977; O'Mahony & Bechky, 2008; Reay & Hinings, 2009; Stark, 2009). The challenge for hybrid organizations, therefore, is to balance logics and prescriptions in order to realize complementarities among them and enable practices that transcend boundaries – and at the same time to avoid blurring them in a haphazard way (Pestoff, 2011).

Balancing prescriptions of potentially conflicting institutional logics is delicate. Conflicting goals, which result from multiple logics and are expressed by the multiple internal and external stakeholders who act as important carriers of distinct logics, require making trade-off decisions. These trade-offs might pull an organization into different directions (Gair, 2005). In addition, divergent logics complicate defining and evaluating performance, which can result in using inconsistent criteria for performance measurement (Anheier, 2011a).

Organizational governance, understood as systems and processes “by which organizations are directed, controlled, and accountable” (Cornforth, 2003, p. 17), is therefore a crucial issue for hybrid organizations (Anheier, 2011b). In particular, governing boards assume a critical role in recognizing and navigating pressures from the external environment and in aligning interests and demands from the various stakeholder groups to which a hybrid organization is accountable (Lorsch, 2012).

Social entrepreneurship as a field of practice has been described as populated by hybrid organizations (Billis, 2010a). Social enterprises provide a good or a service (or both) to solve a social problem not tackled effectively by existing organizations (Mair & Marti, 2006). Although social enterprises differ in their ability to be financially self-sustained because of varying levels of ability to pay among their target groups (Seelos & Mair, 2005), generating earned income is widely considered to be a central feature of social enterprises (Austin et al., 2006; DiDomenico et al., 2010; Lyon & Sepulveda, 2009). In other words, social enterprises simultaneously pursue social and economic goals and strive for social and financial returns derived from their activities. Thereby, social enterprises combine aspects of organizations from the business sector, which are guided predominantly by a commercial logic, with aspects of organizations from the social sector, which apply a social welfare logic as their dominant organizing and evaluating principle.[36] Previous studies on the hybrid nature of social enterprises have emphasized conflicts that arise from combining multiple institutional logics: how logics are combined against all odds in the first place (Battilana & Dorado, 2010) and how organizations respond to conflicting demands in later stages (Pache & Santos, 2010).

Less attention has been dedicated to whether and how social enterprises enact multiple logics associated with distinct institutional domains in their organizing, and to how this enactment is reflected in structural arrangements. In particular, no one has yet studied how the co-existence of multiple logics is revealed and acted upon in the attributes and practices of governing boards, which play a crucial role in balancing prescriptions from distinct institutional logics (Bacq et al., 2011). In addition, existing studies are mostly based on anecdotal evidence from single case studies (Hoogendoorn et al., 2010) and often assume a uniform type of social enterprises. However, as social enterprises operate in the context of institutional pluralism, they are likely to differ in how they balance and combine prescriptions from the institutional logics they enact and thus in their identification with the institutional domains and the corresponding sectors (Mair, Battilana, & Cardenas, 2012).

[36] The concept of institutional logics shares many features with the concept of 'orders of worth' introduced by Boltanski and Thévenot (2006), e.g., that logics and orders of worth can be considered as principles and anchors for judgment and evaluations in distinct domains. There are also, however, important differences between the two concepts. Revealing those would go beyond the scope of this essay, and therefore we use the concepts interchangeably here.

We begin to fill this research gap by applying a fine-grained analysis to identify how different types of social enterprises enact the institutional logics of their anchoring sectors and domains in the context of governance, and more specifically with regard to board attributes and practices. We examine whether and how the identification of social enterprises with the institutional domains of the business sector and the social sector affects their behavior with respect to setting up governance structures and functions.

Our empirical study is based on survey data from 70 hybrid organizations that self-identify as social enterprises and are all fellows of the Schwab Foundation for Social Entrepreneurship. These social enterprises self-select into sector-related categories from which we can infer their identification with the institutional domains of the business and social sectors.

Our results show that their identification with the institutional domains does affect the way they approach governance. The behavior of social enterprises that identify strongly with either the business sector or the social sector reflects compliance with institutionally prescribed and taken-for-granted approaches to governance. In contrast, social enterprises that do not identify with any sector in particular exhibit non-conforming behavior in the way they combine and enrich logics from both domains.

Our study contributes to the emerging stream of research on hybrid organizations and in particular to studies that are concerned with organizational structure and behavior in the context of institutional pluralism. Our findings suggest that whereas some hybrids use their exposure to multiple institutional domains as an opportunity to create novel arrangements, others might perceive prescriptions linked to divergent logics as conflicting and in response choose one 'dominant' logic. We classify the former as *dissenting hybrid organizations* and the latter as *conforming hybrid organizations*. In addition, we advance research on organizational governance by systematically comparing governance approaches among social enterprises that differ in their own identification with the institutional domains of the business sector and the social sector. We contribute to research on sectorial and institutional differences of governing boards (Cornforth, 2003; Rousseau & Fried, 2001) and provide evidence of a contingent factor that affects the set-up and working of governing boards: identification with institutional domains. Last, we contribute to the growing body of research on social entrepreneurship. Our study provides additional, more substantive evidence for the claim that social enterprises do not adopt a uniform way of organizing and thereby contributes to the stream of research that examines the landscape of social enterprises, informing and encouraging larger-scale research projects (Mair et al., 2012).

In section 2.3.2, we review the theoretical background on institutional pluralism in the context of social entrepreneurship and on organizational governance. In section 2.3.3 we report on our data, sample, and method. We then present our empirical results in section 2.3.4. In section 2.3.5 we discuss our findings and develop an agenda for further research.

2.3.2 Theoretical background

Hybrid organizations present a deviation from or mix of purer types that are assumed to preexist (Anheier, 2011b; Brandsen et al., 2005). They span multiple institutional domains equipped with distinct institutional logics. These logics, defined as the taken-for-granted organizing principles, prescribe 'legitimate' goals and the means by which they may be pursued, and they form a framework for reasoning (Battilana & Dorado, 2010; Friedland & Alford, 1991; Scott, 1994; Suddaby & Greenwood, 2005; Thornton, Ocasio, & Lounsbury, 2012). The concept of institutional logics was introduced to depict order at the level of society

(Friedland & Alford, 1991), but values and norms constituting logics are manifested at the level of organizations: they shape identities and are embodied in practices (Dunn & Jones, 2010).

As hybrids ‘inhabit’ multiple institutional domains and display characteristics of multiple sectors (Hallett & Ventresca, 2006), they often mean “multiple things to multiple people” (Kraatz & Block, 2008, p. 244). Some authors argue that organizations that are led by a single logic are rare, and that, for example, all organizations in the social sector are hybrids because of the open, pluralistic, and intermediary nature of the social sector (Billis, 2010a; Brandsen et al., 2005; Evers & Laville, 2004). Nonetheless, scholars have not systematically examined how hybrids organize in the midst of institutional plurality. We believe that answers to this question are vital for the development of theory on hybrids as a distinct organizational form.

2.3.2.1 Social enterprises as hybrid organizations

Social enterprises have attracted increasing attention from scholars interested in institutional processes and outcomes (Mair & Marti, 2006, 2009; Tracey, Phillips, & Jarvis, 2011; Vurro, Dacin, & Perrini, 2010). Viewed historically, social entrepreneurship is not a new phenomenon (Hall, 2013). Yet the number of newly founded social enterprises has risen significantly in recent years (Kerlin, 2012), and existing organizations within the business sector as well as the social sector have increasingly tended to incorporate elements that reflect a social entrepreneurship approach (Spear et al., 2009).

Social enterprises have been portrayed as navigating distinct institutional domains (Mair et al., 2012), as spanning sectorial boundaries of the business sector and the social sector (Dart, 2004; Dees, 1998b), and as pursuing multiple objective functions (Mair & Marti, 2006), adhering to both the commercial and the social welfare logics in the activities they undertake (Battilana et al., 2012; Kuan, Chan, & Wang, 2011; Pache & Santos, 2013). Social enterprises present a rich and promising context for studying organizing amid institutional pluralism, as the logics associated with the different institutional domains (also denoting sectors) prescribe different means and desired goals. Ideal or 'pure type' organizations that enact activities prescribed by a commercial logic offer goods or services to get a financial return in order to serve shareholders as their major stakeholder group and apply efficiency as their dominant principle to evaluate courses of action. In contrast, organizations that pursue goals that follow the social welfare logic offer their services to address a social need or problem, prioritize their beneficiaries, who are often disadvantaged or marginalized, as their dominant stakeholder group, and use effectiveness as their dominant principle to evaluate courses of action.[37]

The activities and courses of action of social enterprises typically embody prescriptions of both the commercial and the social welfare logics (Pache & Santos, 2013). The following example illustrates this: Ciudad Saludable, a profitable waste collection enterprise from Peru, pursues social goals prescribed by the social welfare logic by improving health and living conditions and by creating employment. In order to cover its costs, Ciudad Saludable does not depend on government subsidies but has come up with creative marketing incentives to encourage people to pay a modest monthly fee (e.g., by comparing the costs for waste collection to the costs of a bottle of beer). By generating own revenues, Ciudad Saludable follows prescriptions of the commercial logic.

[37] The description of the social welfare logic that guides behavior of social sector organizations might differ from perceptions that other authors apply when defining the social sector. For a comprehensive overview see Billis (2010b). Other definitions have, for instance, a strong focus on aspects of membership organizations or volunteer engagement. This deviation is in part due to the fact that there is no universal definition for the social sector.

To summarize, social enterprises are an ideal setting for researchers studying hybrids (especially their governance issues), because the context of institutional pluralism in which they operate creates ambiguity about incentives and value dispositions in performance measures, as well as in accountability to a diverse array of stakeholders (Achleitner et al., 2012; Anheier, 2011b; Townsend & Hart, 2008).

Early research on social enterprises highlighted the opportunities involved in addressing some of the most stubborn social problems through entrepreneurship and thereby creating social as well as economic value (Austin et al., 2006; Dees, 1998b). This highly motivational stream of research has recognized but not problematized the challenges involved in simultaneously pursuing dual goals, such as social and financial returns. More recently researchers have emphasized the difficulties involved in combining logics and stressed that the simultaneous enactment of multiple logics is "something that must be accomplished rather than something that just is" (Child, 2012, p. 185). Building on resource dependence theory (Pfeffer & Salancik, 1978), scholars argue that combining logics might expose social enterprises to conflicting demands from their environment and that it becomes a source of internal conflict because satisfying institutional demands from one side might require violating others (Pache & Santos, 2010). Existing studies that examine the interplay of logics in social enterprises and the contestation among them cover response strategies to the conflicting demands and factors that shape how organizations respond, as well as internal practices by which social enterprises manage such demands, particularly in human resource decisions (Battilana & Dorado, 2010; Huybrechts, 2011; Jay, 2012; Pache & Santos, 2010, 2013).

However, whether and how social enterprises enact multiple logics associated with distinct domains in their way of organizing has received little empirical attention (see Pache

& Santos, 2012 for an exception). In particular, studies have not investigated how logics are reflected or manifested in attributes and practices of governing boards, which play a crucial role in recognizing and defining multiple objectives and in attending to the needs and demands of various stakeholders, and thereby in balancing conflicting logics (Travaglini, Bandini, & Mancinone, 2009).

In addition, an important methodological bias in existing research on social enterprises also inhibits progress on theory of social enterprises in particular and of hybrid organizations in general. A large number of studies are based on anecdotal evidence or case-based analysis, which often invites an interpretation that social enterprises adopt a uniform type of organizing (see for a more elaborate discussion Mair et al., 2012). At the same time, it has been argued that social enterprises apply a variety of forms to organize their activities and to govern the relationship to their core stakeholders (Bacq et al., 2011; DiDomenico, Tracey, & Haugh, 2009; Kerlin, 2012; Seelos & Mair, 2005). Operating in the context of institutional pluralism, social enterprises might vary in how they position themselves with respect to the business sector and the social sector – seen as distinct institutional domains in this essay. Thus they vary in their identification with given domains, a condition recognized by scholars who describe hybridity as a concept that is "more continuum than binary, and likely more fuzzy than distinct" (Anheier, 2011b, p. 3).

2.3.2.2 Governance as an important topic in research on hybrid organizations

We adopt a governance lens in order to analyze empirically how hybrid organizations, in our case social enterprises, enact and balance elements of multiple logics. Governance on an organizational level refers to all mechanisms within an organization that broadly determine how the organizational resources are used to move the organization forward and how conflicts between various stakeholders of the organization are resolved (Daily, Dalton, & Cannella, 2003). Thus, organizational governance is concerned with strategic (providing direction), controlling (monitoring and ensuring accountability), and institutional (managing relationships) functions (Low, 2011; Monks & Minow, 1995; Zahra & Pearce, 1989). A focus on governance allows us to examine empirically the balancing of institutional logics and at the same time to uncover novel governance approaches and practices resulting from the combination and balancing of logics (Fligstein, 2001; Hallett & Ventresca, 2006; Westenholz, Pedersen, & Dobbin, 2006).

Governance is important, because it protects hybrids from the risks and pressures that stem from demands of multiple and logically distinct stakeholders, which are translated into and expressed by multiple organizational goals. The existence of multiple goals also evokes ambiguity in criteria used for performance measurement, which in turn might lead to a legitimacy deficit of hybrid organizations in the eyes of external evaluators (Zuckerman, 1999). This fact reinforces the importance of governance, because governance presents a means to foster legitimacy (Townsend & Hart, 2008).

Scholars have acknowledged the importance of studying governance in settings of institutional pluralism (Fligstein, 1991). Yet existing work has predominantly examined governance from a macro-perspective (Westenholz et al., 2006). Although this research is important for understanding the context in which hybrids operate (Cornforth, 2012), we argue that at the micro-level governance is vital for understanding *how* hybrids operate.

We analyze attributes and practices of governing boards of hybrid organizations. Governing boards carry out important fiduciary and oversight functions (Ben−Ner & Van Hoomissen, 1994; Cornforth, 2012), and critical strategic and organizational decisions are made at the board level (Low, 2006). Therefore, it is not surprising that governing boards present the most widely researched governance mechanism for organizations in the business sector and the social sector (Coombes, Morris, Allen, & Webb, 2011; Cornforth, 2012). Paralleling the legal distinction between for-profit organizations populating the business sector and non-profit organizations populating the social sector, the literature on governance and on structure and practices of governing boards has evolved on dual tracks (Herman & Van Til, 1985; Hung, 1998).[38]

Both streams do overlap in their emphasis on three essential features of governing boards – board membership, board size, and board influence – but the descriptions and prescriptions derived from empirical and theoretical research differ. We briefly summarize these findings for each stream of literature. By building on perspectives applied by scholars to analyze boards and the roles they play in for-profit and non-profit organizations, we follow the line of Low (2006), Mason et al. (2007), and Dorado and Shaffer (2011), who take the same route to analyze governance of social enterprises.

The two dominant paradigms of governance in for-profit organizations are a compliance model and a stewardship model[39] (Cornforth, 2003; Hambrick et al., 2008; Muth & Donaldson, 1998). The overriding goal in the business sector is to maximize financial return in order to increase value for shareholders, who own for-profit companies and constitute their dominant stakeholder group. The primary task of governing boards of for-profit organizations is to act as an agent of shareholders (Eisenhardt, 1989a). Shareholders are legally entitled to participate on boards (Low, 2006), and a dominance of shareholders is evident in terms of *board membership* (Lerner, 1995). As for *board size*, we see that for-profit organizations

[38] For reviews on governance and governing boards in for-profit organizations, see Aguilera and Jackson (2010) and Hambrick, Werder, and Zajac (2008), and on governance and governing boards in non-profit organizations, see Cornforth (2012) and Stone and Ostrower (2007).

[39] The stewardship model does not correspond to stewardship theory, which was mentioned in section 2.2.

benefit from rather small boards for two important reasons: smaller boards discourage free-riding of board members (Forbes & Milliken, 1999; Van den Berghe & Levrau, 2004) and constrain the ability of the chief executive to dominate the board (Eisenberg, Sundgren, & Wells, 1998; Yermack, 1996). *Board influence* is rather high, so that the board can control the management team to ensure that they act in accordance with shareholders' interests (Byrd & Hickman, 1992).

In non-profit organizations, governance is often related to a democratic model (Low, 2006). Non-profit organizations aim to fulfill a social mission for the benefit of a specific target group, which constitutes the dominant stakeholder (Cornforth & Spear, 2010; Low, 2006). Assets of a non-profit organization are locked in, and they are theoretically owned by the community they serve (Pearce, 2003). The principal role of boards of non-profit organizations is representation of the interests of various stakeholder groups (Cornforth, 2003; Iecovich, 2005). Although stakeholders of non-profit organizations are not legally entitled to participate in governing boards (Low, 2006), *board membership* should cover a broad array of stakeholders, such as the target group, community members, and volunteers (Oster, 1995; Spear et al., 2009). As for *board size*, non-profit organizations benefit from rather large boards for three main reasons: additional knowledge and contacts, stakeholder representation, and funding provided by board members (Forbes & Milliken, 1999; O'Regan & Oster, 2005; Olson, 2000; Ruvinsky, 2005). *Board influence* is assumed to be of minor relevance in the non-profit context because the non-profit form in itself is often seen as an assurance for compliance with previously agreed goals as a result of the non-distribution constraint that comes along with opting for a non-profit model (Hansmann, 1980; Witesman & Fernandez, 2013).

In sum, according to the literature, organizations operating in the business sector substantially differ from organizations operating in the social sector in membership, size, and influence of governing boards. How do hybrid organizations that span sectors and combine logics from both institutional domains organize and approach governance?

Although research has been attentive to how board attributes and practices are shaped by the institutional context (Golden-Biddle & Rao, 1997), we still know very little about governance (and especially governing boards) of hybrid organizations – that is, organizations that are logically plural from an institutional perspective. Does the identification of hybrids with institutional domains affect their governing behavior in terms of board attributes and practices? Answering this empirical question will allow us to develop a fine-grained understanding of whether and under which conditions hybrid organizations prioritize practices that are aligned with a specific institutional logic on how to govern. In addition, it enables us to uncover conditions under which hybrid organizations depart from existing practices and develop new models.

2.3.3 Data, sample and method

We use survey data from a study that we conducted jointly with the Schwab Foundation for Social Entrepreneurship and the European Business School in 2011. Participants were all fellows of the Schwab Foundation. The organizations constituting the population of Schwab fellows were particularly suited for our survey for three reasons. First, Schwab fellows self-identify as social enterprises and therefore constitute hybrid organizations as we define them. Second, compared to other support organizations such as Ashoka, which centers its selection particularly on the person of the social entrepreneur, the Schwab Foundation puts more focus on organizational aspects within the selection process (see also Nicholls, 2010b; Mair et al., 2012 for a comparison and further details on the selection process of both support organizations). It is important to note that a candidate organization's approach to governance is not a selection criterion of the Schwab Foundation. Therefore, no ex-ante bias exists within our sample with respect to organizational governance. Third and most important, Schwab fellows are asked to describe their organizational model by classifying themselves into one of three categories after successful selection: for-profit, intermediate, or non-profit.[40] Their self-categorization is a proxy for their identification with the institutional domains of the business sector and the social sector.

The categories, which are introduced by the Schwab Foundation, describe ideal types of organizational models and allow the foundation to better understand the access to capital and modality of exchange employed by the selected social enterprises. It is important to note that these categories do not relate to any legal form in particular. The Schwab foundation describes the for-profit category as generating own revenues, which are mainly reinvested, and as financed by investors who are interested in combining social and financial returns. The intermediate category is described as a combination of several legal entities, financed via cost recovery through income generation and via sources of funding from the public as well as the philanthropic sector. The non-profit category is described as reinvesting their profits fully and, hence, as financed by solely philanthropic investors who do not expect any financial return.

[40] For reasons of comprehensibility we adapted the wording used by the Schwab Foundation to describe the categories: instead of using the terms *social business*, *hybrid non-profit*, and *leveraged non-profit*, we refer to for-profit, intermediate, and non-profit respectively. The definitions of the terms remain the same. For a more comprehensive definition of the categories, please see: http://www.schwabfound.org/content/what-social-entrepreneur.

We use the self-selection of social enterprises into the three categories as a proxy for their identification with institutional domains: Self-selecting the for-profit category implies strong identification with the business sector, and self-selecting the non-profit category is assumed to reflect a strong identification with the social sector. Classifying as intermediate, in contrast, signals no identification with a specific sector. Thus, the self-categorization allows us to assess social enterprises' identification with the institutional domains, and the self-assigned categories serve as our independent variables to test whether and how the identification with institutional domains affects the way social enterprises approach governance.

Building on existing research, we developed a survey that included questions on board membership, board size, and board influence (decisions that need approval by the board). We pretested the survey with a social entrepreneur and an academic to detect potential misunderstandings. Minor changes were made to the survey after the pretest. We then sent out the survey to the entire Schwab community of 169 social enterprises and received responses from 70 of them, a response rate of 41%. We measured the survey variables, which represent our dependent variables, using categorical or interval survey items. For *board membership*, participants were asked to indicate whether capital providers (the business sector) and the target group (the social sector), as the dominant stakeholder groups, are represented on their boards. The variable *board size* was assessed by asking for the number of non-executive board members of social enterprises that have a one-tier board structure and for the number of members of the supervisory or advisory board of social enterprises that employ a two-tier board structure.[41] In order to assess *board influence*, participants were asked about the

[41] In Anglo-Saxon influenced countries (e.g., the US and the UK), the one-tier system, where there is a single board composed of both the management team and external non-executive members, is more common. The one-tier system usually refers to a board of directors. The two-tier system, where the management board and

involvement of their boards in their decision-making. They had to indicate whether their board has to approve decisions in seven areas. The variables on board influence that are presented in our essay are measured by using summated scales based on the raw categorical data. We condensed the seven areas into three overall clusters of decision-making: strategic decisions (decisions on investment, strategy, and use of surplus/profits), financial decisions (decisions on annual budget and financial statements), and human resource decisions (decisions on retirement/succession and salaries/bonuses). We analyzed differences between the categories of organizational models using two statistical tests: To test for differences on interval variables, we used Mann-Whitney tests, as our data did not fulfill the assumptions of parametric data. For categorical data, we used Fisher's exact test and not chi2 because of the small sample size.

Comparing our subsample of 70 social enterprises to the entire Schwab Foundation community of 169 social enterprises, we find a comparable distribution of the for-profit, intermediate, and non-profit categories. Our sample is divided into 31% of social enterprises that categorize their model as for-profit (N=22), 51% of social enterprises that identify with the intermediate category (N=36), and 17% of social enterprises that self-select to the non-profit category (N=12); the full sample consists of 28% of the first, 50% of the second, and 21% of the third category. We therefore do not have a biased distribution of the categories in our sample.

Before presenting our results, we should mention the limitations of our study. We are able to derive empirical indications of board attributes and practices in the social entrepreneurship area, but our findings provide only limited generalizability because of the

the supervisory board operate in parallel, is often seen in continental Europe (e.g., Germany and the Netherlands).

relatively small sample size, which does not allow us to control for other potentially relevant variables driving organizational governance. First, although the internationality of our sample sets us apart from most previous empirical studies of social enterprises, we are not able to account for socio-cultural context because of the small sample size. Second, our sample is not representative of the entire population of hybrid organizations in general and social enterprises in particular. Organizations that become Schwab fellows survive a very competitive selection process and are widely considered to be successful and mature organizations (Mair et al., 2012). In contrast to start-up social enterprises (making up, for instance, the population of Echoing Green fellows; see Battilana et al., 2012) the Schwab fellows represent a population of social enterprises that have reflected on and made explicit decisions about how to organize. Third, as shown in Table 2-9, the three categories of social enterprises differ in age, annual budget, and percentage of earned revenue: social enterprises that choose the for-profit category have a higher annual budget and a higher proportion of earned revenue than social enterprises identifying with the intermediate or non-profit category. In relation to age, social enterprises that self-select to the intermediate category are slightly older than social enterprises identifying with the for-profit or non-profit category. We were not able to observe those variables for all participating organizations, however, and hence we could not use them as control variables because doing so would have decreased our sample size too much. As an initial check on whether the variables affect our dependent variables of board attributes and practices, we looked at them separately. Instead of splitting the sample according to the three categories, we used the variables age, annual budget, and percentage of earned revenue to build groups with low, medium, and high values of these variables. For each variable, we then tested whether the three groups showed significant differences in board membership, size, and influence. We did not find any significant differences, and therefore we cautiously conclude that our findings are likely to stem from differences in the identification with institutional domains that we infer from their self-categorization, rather than from variations in terms of the variables: age, budget or percentage earned revenue.

Table 2-9: Descriptive sample characteristics

This table displays descriptive statistics on 70 social enterprises. The sample is based on a survey of fellows of the Schwab Foundation for Social Entrepreneurship undertaken in 2011. Panel A presents selective characteristics for the 70 social enterprises in our sample. Panel B shows selective descriptive statistics for the sample differentiated by the categories into which the social enterprises self-select.

	Age				Annual Budget (in million $)				Percentage Earned Revenue			
	Obs.	Mean	Median	Std. Dev.	Obs.	Mean	Median	Std. Dev.	Obs.	Mean	Median	Std. Dev.
Panel A: Total sample												
	70	17.16	17.00	9.44	59	7.78	3.45	12.1	55	54%	45%	35.43
Panel B: By category												
For-Profit	22	16.09	16.50	10.85	17	12.99	5.10	19.70	16	82%	99%	29.51
Intermediate	36	18.28	18.00	8.79	33	6.23	4.10	6.20	31	49%	41%	30.45
Non-profit	12	15.75	14.00	8.96	9	3.64	0.97	6.97	8	14%	12%	9.38

2.3.4 Empirical results

2.3.4.1 Board membership

For board membership, we find that capital providers are represented more frequently on boards of social enterprises that classify themselves in the for-profit category (62%) than on boards of social enterprises that choose the intermediate (28%) or non-profit category (27%). The differences in capital-provider representation between social enterprises that self-select into the for-profit category and social enterprises that categorize themselves as intermediate or non-profit are statistically significant ($p < 0.05$; $p < 0.1$). There is no statistically significant difference between social enterprises in the intermediate or non-profit category. The target group is more frequently represented on boards of social enterprises that categorize themselves as non-profit (64%) than on boards of social enterprises that choose the intermediate (25%) or the for-profit category (19%). By employing Fisher's exact test, we find that the differences in the frequency of target group representation among social enterprises in the non-profit category and social enterprises that self-select to the intermediate or for-profit category are statistically significant ($p < 0.05$ in both cases). The difference between social enterprises that classify themselves as intermediate and social enterprises that choose the for-profit category is not statistically significant (see Table 2-10).

Table 2-10: Board membership

This table displays statistics on the representation of capital providers and the target group on boards of social enterprises. The sample is based on a survey of 70 fellows of the Schwab Foundation for Social Entrepreneurship undertaken in 2011. Panel A shows statistics for the full sample. Panel B compares membership for the three categories into which the social enterprises self-select. We test the statistical significance of differences between the organizational categories with Fisher's exact mean comparison tests. *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent level, respectively.

		Capital Providers			Target Group		
	Obs.	# (Yes)	% (Yes)	*Fisher's Exact*	# (Yes)	% (Yes)	*Fisher's Exact*
Panel A: Total sample							
	68	26	38%		20	29%	
Panel B: By category							
For-Profit	21	13	62%		4	19%	
Intermediate	36	10	28%		9	25%	
Non-profit	11	3	27%		7	64%	
Intermediate vs. For-profit				-**			+
Non-profit vs. For-profit				-*			+**
Non-profit vs. Intermediate				-			+**

2.3.4.2 Board size

Our descriptive statistics show that social enterprises in the for-profit category have smaller boards (mean = 4.7) than social enterprises in the intermediate (mean = 7.2) and non-profit category (mean = 9.9). When testing for the differences of board size in relation to the three categories in our univariate analysis, we find that boards of social enterprises belonging to the non-profit category and boards of social enterprises belonging to the intermediate category are significantly larger than boards of social enterprises that identify with the for-profit category ($p < 0.05$ in both cases); we find no significant difference for the mean board sizes of social enterprises identifying with the intermediate and the non-profit category (see Table 2-11).

Table 2-11: Board size

This table displays statistics on board size of social enterprises. The sample is based on a survey of 70 fellows of the Schwab Foundation for Social Entrepreneurship undertaken in 2011. Panel A shows statistics for the full sample. Panel B compares size for the three categories into which the social enterprises self-select. We test the statistical significance of differences between the organizational categories with Wilcoxon rank-sum (Mann-Whitney) test. *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent level, respectively.

		Board Size			
	Obs.	Mean	Median	Std. Dev.	*Mann-Whitney Test (z-value)*
Panel A: Total sample					
	64	6.91	5.5	4.18	
Panel B: By category					
For-Profit	19	4.74	5	2.28	
Intermediate	34	7.20	6	3.30	
Non-profit	11	9.91	10	6.76	
Intermediate vs. For-profit					-2.69**
Non-profit vs. For-profit					-2.32**
Non-profit vs. Intermediate					-1.33

2.3.4.3 Board influence

With regard to board influence, our results indicate that boards of social enterprises that identify with the for-profit (77%) and the intermediate category (71%) are more likely to be involved in strategic decisions than boards of social enterprises that categorize themselves as non-profit (53%). For financial decisions, the data shows that boards of social enterprises in the for-profit (79%) and intermediate category (76%) are more likely to have approval rights than boards of social enterprises that self-select to the non-profit category (58%). Statistical tests showed that social enterprises in the non-profit category differ significantly from social enterprises belonging to the for-profit and the intermediate category in the cases of strategic as well as financial decisions ($p < 0.1$ in all four cases). There is no significant difference in this regard between social enterprises that classify themselves as intermediate and social enterprises that choose the for-profit category.

In human resource decisions, only boards of social enterprises that categorize themselves as intermediate (54%) are involved frequently (boards of social enterprises in the for-profit category 34% and non-profit category 25%). Our univariate analysis shows that the differences regarding the involvement in human resource decisions in boards of social enterprises identifying with the intermediate category and social enterprises that self-select into the for-profit as well as the non-profit categories are statistically significant ($p<0.1$; $p<0.05$); the difference between social enterprises that categorize as for-profit or non-profit is not statistically significant (see Table 2-12).

Table 2-12: Board influence

This table displays statistics on decision approval rights of boards of social enterprises. The sample is based on a survey of 70 fellows of the Schwab Foundation for Social Entrepreneurship undertaken in 2011. Panel A shows statistics for the full sample. Panel B compares decision approval for the three categories into which the social enterprises self-select. We test the statistical significance of differences between the organizational categories with Wilcoxon rank-sum (Mann-Whitney) test. As outlined in section 2.3.3 of the essay, the clusters are built on the basis of decision-making topics: Strategic decisions (decisions on investment, strategy, and use of surplus/profits), financial decisions (decisions on annual budget and financial statements), and human resource decisions (decisions on retirement/succession and salaries/bonuses). *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent level, respectively.

		Strategic Decisions			Financial Decisions			Human Resource Decisions		
	Obs.	Mean	Std. Dev.	*Mann-Whitney Test (z-value)*	Mean	Std. Dev.	*Mann-Whitney Test (z-value)*	Mean	Std. Dev.	*Mann-Whitney Test (z-value)*
Panel A: Total sample										
	65	0.69	0.30		0.73	0.34		0.43	0.43	
Panel B: By category										
For-Profit	19	0.77	0.33		0.79	0.35		0.34	0.44	
Intermediate	34	0.71	0.27		0.76	0.33		0.54	0.42	
Non-profit	12	0.53	0.30		0.58	0.36		0.25	0.40	
Intermediate vs. For-profit				1.25			0.38			-1.66*
Non-profit vs. For-profit				2.21*			1.72*			0.56
Non-profit vs. Intermediate				1.85*			1.65*			2.08**

2.3.5 Discussion

The purpose of this essay is to advance theory on hybrid organizations and to expand knowledge of organizational governance. We complement existing perspectives on hybridity (Anheier, 2011b; Brandsen et al., 2005) and view hybrid organizations from an institutional perspective as logically plural: They operate in the interstices of distinct sectors that also constitute institutional domains. Hybrid organizations are therefore confronted with multiple and often conflicting institutional logics. Such logics are "socially shared, deeply held assumptions and values that form a framework for reasoning, provide criteria for legitimacy" (Dunn & Jones, 2010, p. 114). At the level of society and sectors they shape institutions – that is, the rules of the game (Friedland & Alford, 1991) – and at the level of organizations they shape identities and practices (Olsen & March, 1989). In their decisions on how to organize and to pursue strategic objectives, hybrid organizations have to decide whether they operate under multiple logics – whether they play in "two or more games at the same time" (Kraatz & Block, 2008, p. 243) – or whether they stick to one 'dominant' logic, meaning that they prioritize one logic.

We examined board attributes and practices of 70 hybrid organizations, focusing on a specific type of hybrids, social enterprises. We explored whether and how their self-assigned identification with institutional domains affects their approach towards governance. Our findings suggest that hybrid organizations that self-identify with a specific institutional domain are more likely to adopt board attributes and practices prescribed by the logic characteristic of the relevant sector. Hybrid organizations that categorize themselves as for-profit and therefore demonstrate strong identification with the business sector seem to follow the prescriptions of the commercial logic. In our sample these social enterprises adopted a governance approach that is fully aligned with the descriptions and prescriptions noted in the extant literature on corporate governance – that is, governance of organizations in the business sector. They grant board membership to capital providers, have rather small boards, and frequently involve their boards in strategic as well as financial decisions. Hybrid organizations that categorize themselves as non-profit and therefore demonstrate strong identification with the social sector seem to follow the prescriptions of the social welfare logic. The pattern of board attributes and practices of these social enterprises in our sample is fully in line with descriptions and prescriptions from the literature on governance of organizations operating in the social sector. They frequently include members of their target group in their boards, have rather large boards, and grant their board members limited decision-making power.[42] This practice is also consistent with previous findings showing that non-profit boards are only rarely involved in the decision-making of their organizations (Miller-Millesen, 2003).

In contrast, our findings suggest that hybrid organizations that do not self-identify with a specific institutional domain are likely to embrace multiple institutional logics and allow these logics to guide their organizational decisions and behavior simultaneously. The social enterprises that categorize themselves as intermediate seem to follow neither prescriptions of the commercial logic nor prescriptions of the social welfare logic when they decide on board membership. They do not systematically include capital providers or members of their target group as board members. With regard to board size and board influence, they straddle institutional domains. They embrace practices that embody a social welfare logic reflected, for instance, in the larger size of boards, and a commercial logic, which is reflected, for

[42] We note that non-profit social enterprises deviate from what some empirical studies have shown for traditional large-scale non-profit organizations. Criticism, for instance, has been aimed at traditional non-profit organizations for neglecting their beneficiaries within board membership (Ebrahim, 2003; Iecovich, 2005; Ostrower & Stone, 2006). Our findings have not corroborated this neglect.

example, in the practice of granting their boards wide decision-making power concerning finances and strategy. At the same time, our data reveals that these types of hybrid organizations also develop novel governing practices, such as involving the board frequently in human-resource-related decisions. By doing so they experiment with novel practices and refute criticism that social enterprises and other mission-driven organizations rarely include human resource decisions on a board's agenda (Fisman, Khurana, & Martenson, 2009).

This study represents a first step toward more fine-grained empirical and theoretical attention to the structure and behavior of hybrid organizations. Our empirical findings allow us to distinguish between two types of hybrids: *conforming hybrid organizations* that rely on and adopt existing organizing principles from one institutional domain or sector and *dissenting hybrid organizations* that question existing institutional arrangements. In line with recent literature, the hybrid organizations in our sample are accountable not to one but to a configuration of stakeholder groups, which implies multiple goals and multiple objective functions (Anheier, 2011b). We extend this perspective by adding an institutional lens and consider how hybrid organizations cope with institutional pluralism. Our analysis reveals differences among the hybrid organizations we studied. Conforming hybrids seem to perceive the multiple logics as conflicting and in response choose one 'dominant' logic. Dissenting hybrids seem to perceive the exposure to multiple logics as an opportunity and create novel arrangements. This finding is of theoretical importance and allows us to reconcile recent and popular perspectives on institutional logics (Thornton & Ocasio, 2008; Thornton et al., 2012) with earlier accounts of institutional theories on organizations (Kraatz & Block, 2008; Selznick, 1949, 1957), as well as with complementary perspectives to institutional logics grounded in theory of conventions (Boltanski & Thévenot, 2006; Stark, 2009). Over the past few years, institutional research on organizations has – in our opinion – over-emphasized the conflicts and contestation among logics (Friedland & Alford, 1991). We almost take for granted that as a result of conflicts among logics, one logic needs to prevail. This view is supported by scholars in the area of new institutionalism who have a top-down perspective on institutional logics and emphasize adherence to existing logics for reasons of legitimacy (DiMaggio & Powell, 1983), thereby missing the generative potential of organizations in (re)combining logics (Binder, 2007).

Our results do corroborate the claim that many hybrid organizations do choose one 'dominant' logic. Yet we also find that some hybrid organizations proactively combine logics in their activities. Our findings on dissenting hybrids suggest that hybrid "organizations can thrive and prosper in the midst of institutional pluralism, both despite and because of it" (Kraatz & Block, 2008, p. 246). This finding is consistent with views on institutional pluralism that perceive multiple logics as not necessarily conflicting, but rather beneficial. We also back up scholars who depart from the strict script-following view on institutional logics, moving instead toward a view of 'inhabited institutions' in which organizations creatively recombine available scripts (Binder, 2007; Hallett & Ventresca, 2006). Stark (2009), for example, views the essence of entrepreneurship as "the ability to keep multiple evaluative principles in play and to exploit the resulting friction of their interplay" (Stark, 2009, p. 25): Entrepreneurship and novelty do not occur "at the gap but through the productive friction at the overlap of evaluative frameworks" (Stark, 2008, p. 25).

Our finding on dissenting hybrids also resonates with Merton's (1968) perspective on innovation: they attain dual goals in unaccepted ways; in other words, they do not comply with given institutionalized means. In contrast, conforming hybrids attain dual goals by societally accepted means. In the words of Schumpeter (1947), conforming hybrids stay within the range of current custom (adaptive response), whereas dissenting hybrids go beyond existing practices and procedures (creative response).

To summarize, our findings contribute to institutional perspectives on hybrid organizations. Although we focus on a specific institutionally bound form of hybrid organization, social enterprises, the implications are transferrable to hybrid organizations operating in the interstices of other institutional domains. For example, many organizations in the creative and artistic fields can be viewed as hybrid organizations. To use the language of this essay, these organizations often operate in a situation of institutional pluralism, facing a cultural logic as well as increasingly a commercial logic. Similarly, our findings might be relevant for researching biotech companies, which face both a scientific and a commercial logic in their decisions about how to organize and operate (Murray, 2010). We hope that our approach will inspire more empirical research to advance and extend our theorizing on hybrid organizations in the context of institutional pluralism.

Our study also contributes to research on organizational governance. Research on corporate governance and governance of non-profit organizations has evolved largely on parallel and separate tracks and has paid only scant attention to governance of hybrids – that is, organizations that do not squarely fit implicit assumptions about singular objective functions and standard modes of operating. Also, although institutional perspectives on governance have gained momentum over the past decade, studies in this area largely examine governance at the macro-level (G. F. Davis, 2005; Fligstein & Choo, 2005). We advance work on governance in hybrid organizations and explore the institutional interplay at the organizational level. This approach allows us to uncover where novel governance practices come from. As our findings suggest, practices embodying distinct logics can be combined and developed in order to create novel governance arrangements.

Last, our study informs theorizing on social enterprises. We contribute to efforts to adopt theoretical and empirical rigorous approaches to study the landscape of social enterprises. Although previous research has developed typologies of social enterprises based on motivation, outcomes, or search processes, little systematic research exists on how social enterprises operate (Mair et al., 2012). Our findings further emphasize that social enterprises do not adopt a uniform way of organizing. As governing boards are a mechanism that expresses structure, an important insight is that in social entrepreneurship as a field of practice, structure follows varied (institutional) strategies (Chandler, 1962). The heterogeneity in approaches to governance that we have uncovered in what is often considered to be a homogeneous population of social enterprises is also of relevance for policy makers. As governments around the globe are striving to craft policies to enable activity of social enterprises that include new legal entities (Coates & Van Opstal, 2009), they might consult and analyze in more detail the organizational arrangements and activities of dissenting hybrids, as these are the ones most likely to be at the frontiers of organizational innovation.

2.3.5.1 Future Research

At the center of our scholarly interest are hybrid organizations. Although our research design – the population of organizations we study and the cross-sectional survey we administered – is not without flaws, this study is an important first step toward a more systematic analysis of governance as an important aspect of organizing hybrids. Our study also offers an array of theoretical and empirical questions.

First, our empirical investigation is based on a small sample of 70 organizations, which makes it difficult to generalize our results and does not allow us to assess systematically the significance of additional relevant factors that may shape organizational governance.

Research designs that involve a larger population, not limited to fellows of the Schwab Foundation, could examine governance patterns and assess the relative importance of identification with institutional domains in comparison to other contingent factors, such as age of the organization, geographical distribution, or specifics of issue domains (for an overview on potential contingent factors, see Miller-Millesen, 2003; Ostrower & Stone, 2010). Studies in this area would further develop contingency theories of hybrid organizations and governance and increase our understanding of the factors that enable hybrid organizations to realize their full potential (Kraatz & Block, 2008). Such studies could also compare hybrid organizations across institutional domains, perhaps comparing governance of artistic organizations and social enterprises.

Second, future studies should go beyond the cross-sectional approach we adopted for this study. A longitudinal research design would be suited to following the development of hybrid organizations over time to detect lifecycle-specific processes and dynamics. This design would permit us to answer questions such as whether a specific model or category is particularly suited to a certain lifecycle stage, or whether conforming hybrids turn into dissenting hybrids and vice versa. In addition, studies that capture time as an important dimension would enable us to go beyond contingency explanations and provide important seeds for causal explanations. Anecdotal evidence suggests that many social enterprises start off with a non-profit model because donors, who constitute their major funders at that time, request a non-profit form. As capital requirements increase, other types of capital providers may appear, ones that are potentially able to invest only in for-profit organizations, leading to a switch (Milligan & Schöning, 2011). Ultimately, entrepreneurs might opt for a combination in order to combine the benefits of both. A longitudinal study would also allow us to detect under which conditions hybrid organizations can preserve their hybrid nature. This design could also show when a hybrid way of organizing is a transitory phenomenon and when it is a steady-state one.

Third, we see a need for research that expands the spectrum of practices enacted by hybrid organizations to better understand how hybrids deviate from conventional ways of organizing and thereby break with the prescriptions of one specific logic. Our study catches a glimpse of the distinctiveness of dissenting hybrids in governance, but further aspects of organizational practices need to be analyzed. These include leadership styles, scaling mechanisms, and human resource policies. Such studies would allow us to gain a better understanding of whether the distinction between conforming and dissenting hybrids represents a robust typology. In the context of social entrepreneurship, scaling activities, meaning efforts of social enterprises to grow their initiatives and also their impact (Sezgi & Mair, 2010), could provide a fertile setting for studying whether and how the commercial and social welfare logics affect organizational structure, strategy, and behavior. Applying the approach used in this study to assess scaling, researchers could test whether social enterprises (1) adopt a commercial logic and employ strategies prevalent in the business sector, emphasizing economies of scale and increased revenues and thus organizational growth, (2) adopt a social welfare logic and resemble social sector initiatives by aiming to maximize their impact via a replication of their approaches by others, or (3) whether they combine aspects of both approaches (for an overview on scaling strategies, see Heinecke & Mayer, 2012). Future research in this area could shed additional light on how hybrid organizations in general and social enterprises in particular navigate inconsistent demands of the institutional domains they inhabit (Hallett & Ventresca, 2006; Pache & Santos, 2010).

Fourth, our results provide some first insights into the composition and roles of boards in hybrid organizations. Future research could build on this study and further analyze the roles of governing boards in hybrid organizations. Overall, boards have three types of duties: fiduciary, strategic, and generative (Chait, Ryan, & Taylor, 2011). The generative role is of particular importance for hybrids, as generative behavior involves repeatedly negotiating and interpreting the mission, and thus balancing actions to achieve multiple goals. Overall, there is only scant insight into the role of boards in generative behavior (Chait et al., 2011). Such studies would deepen our understanding of how organizations experience and negotiate dual logics. Research could be approached via case studies that evaluate protocols of board meetings and include interviews with social entrepreneurs themselves as well as with their board members.

Last, we see a need for studies that explicitly interrogate the concept of organizational hybridity. We view the distinction between sector-centered and mechanism-centered perspectives when studying hybrid organizations introduced by Seibel (2011) as particularly fruitful. The sector-centered perspective has been criticized for being excessively static, overemphasizing formal arrangements and not capturing what goes on beyond the level of legal forms. The mechanism-centered perspective, where the hybrid status is defined by a clash of certain management styles with environments that would propose another style (e.g., oligarchy in a grassroots organization that would imply a more participatory leadership style), instead has been accused of overemphasizing agency. Our study provides a first and very humble effort to reconcile both approaches, as we adopt an institutional perspective that specifies governance and at the same time respects insights of old institutional theory, highlighting the micro-dynamics of institutional processes.

2.3.5.2 Conclusion

Over the past few years, the hybrid organizations studied here, social enterprises, have been intensely discussed. Our findings provide a better conceptual understanding of the heterogeneity of hybrid organizations in a field of practice such as social entrepreneurship.

Most important, however, we have made the case that hybrid organizations are an exciting space for scholars interested in organizing and the future of governance. In arenas populated by hybrid organizations, such as social entrepreneurship and biotech, much anecdotal evidence exists, but it is mostly applicable only to the specific field under observation. By adopting an institutional lens, we present a framing that is not linked to specific intricacies of a singular phenomenon but allows for cross-sectional comparisons (on a macro-level) in order to formulate robust hypotheses on the evolution of organizational forms.

3 Conclusion

3.1 Summary of results, implications and future research

There has been an upsurge in research on social entrepreneurship in the last two decades (Hoogendoorn et al., 2010). While there is a huge body of conceptual research, very few quantitative empirical studies have been conducted so far (Kraus et al., 2014). In order to advance social entrepreneurship research to the next level and to legitimize future research in this domain[43], more quantitative research is needed which provides insights beyond case-based narratives. This dissertation addresses three specific research questions empirically. In so doing it expands the theoretical knowledge on social entrepreneurship and provides practical implications. The thematic focus is on financing and governance of social enterprises. In the following, the results of the presented essays are summarized. In addition, theoretical as well as practical contributions and areas for future research are highlighted.

The *first essay* analyzes how SVC investors evaluate the integrity of social entrepreneurs. It contributes to those research efforts that analyze how relationships between SVC investors and social enterprises come to be (Miller & Wesley, 2010; Scarlata & Alemany, 2009). A conjoint-based approach is applied in order to analyze attributes used for the assessment of integrity. 40 SVC investors and 40 students participated in a ranking exercise in which they had to rank constructed profiles according to how they would judge integrity. The profiles contained the following attributes: the entrepreneur's personal experience, professional background, voluntary accountability efforts, reputation and awards granted to the entrepreneur. Overall, 640 ranking decisions were analyzed.

[43] There have already been concerns about the relevance of and the legitimization for research on social entrepreneurship. Kuckertz (2013, p. 15), for instance, asks whether "social entrepreneurship [is] an overrated phenomenon" within research and according to Sassmanshausen and Volkmann (2013), scholars wonder whether the number of publications already exceeds the number of social enterprises operating in the field.

Results reveal that SVC investors mainly use two key attributes to assess the integrity of a social entrepreneur (the percentages in brackets refer to the attribute contribution to the overall assessment): First, voluntary accountability efforts (35.7%) such as the disclosure of reports or governance mechanisms, and second, the reputation of the social entrepreneur (36.3%). For an overall positive judgment of integrity it was sufficient if either accountability efforts or reputation were high. The effects of personal experience (8.3%), professional background (4.2%) and awards received (15.5%) are statistically significant as well but have only a minor impact on the overall assessment. By comparing the results of investment professionals to the results obtained with the student sample it is shown that professional experience leads to a simpler decision model. While SVC investors focus more strongly on the two mentioned key attributes of accountability efforts and reputation, evaluations of students are based on a more balanced combination of all five attributes.

The essay expands existing literature on the selection criteria applied by SVC investors. A trend from traditional entrepreneurship research is picked up: researchers frequently analyze the selection criteria applied by VC investors (e.g., Franke, Gruber, Harhoff, & Henkel, 2008; Shepherd, 1999; for an overview see Heister, 2010). Due to the reputation of VC investors for selecting the most promising ventures, selection criteria applied by VC investors are often translated into key success factors of entrepreneurial ventures (MacMillan et al., 1987). The results obtained could inform traditional entrepreneurship literature in which integrity assessments have not previously been analyzed either. Literature is expanded by combining several theoretical frames to analyze integrity assessments. On a broader level, the essay contributes to literature analyzing the screening process of contracting parties as a mechanism to reduce information asymmetries in order to avoid adverse selection and to mitigate potential agency conflicts.

Further, the essay provides important implications for practitioners. First, SVC investors entering the field might pick up the criteria used by their experienced peers. Second, other organizations that employ the SVC approach but do not operate under that label such as foundations, corporate philanthropy offices or public policy initiatives, might also find the results helpful. Third, social entrepreneurs are able to get an insight into the selection criteria used by SVC investors. This might be useful when applying for funding from SVC investors. Social entrepreneurs might, for instance, start to proactively measure and report on their impact and activities in order to signal a high degree of accountability efforts.

For future research it would be interesting to analyze whether SVC investors end up being right with their integrity judgments based on the aforementioned criteria. By assessing integrity, SVC investors aim to minimize the risk of a mission drift, among other things. Future research could compare the results obtained with cases where a mission drift occurred, asking, for instance, whether accountability efforts and reputation were high in these cases. This would answer the question whether the selection criteria applied really do protect against the danger of a mission drift. It would also allow us to link attributes of perceived integrity with those of true integrity. In addition, it would be interesting to gain a deeper understanding of the post-investment behavior of the SVC investors themselves because a mission drift might also be induced by them (Milligan & Schöning, 2011). Their influence on the positioning of social enterprises in between the social and financial return dimensions should be analyzed thoroughly. In this context, it would, e.g., be interesting to analyze investment contracts and to study the influence of SVC investors in the governing boards of social enterprises. The relevance of accountability efforts highlights the importance of future research endeavors on social reporting and impact measurement (for exemplary articles on these topics, see Darby & Jenkins, 2006; Mair & Sharma, 2012; Roder, 2010).

The *second essay* provides an insight into how social entrepreneurs evaluate certain non-financial features of SVC investors. The importance of five attributes for assessing investor attractiveness is analyzed: business advisory, network access, information rights, control rights and reputation of the investor. A conjoint analysis was conducted to capture the importance of those attributes. 44 social entrepreneurs from all over Europe participated in a rating exercise, providing data on 1056 decisions. All participants had received an investment by a SVC fund in the past. They had to rate profiles of hypothetical SVC investors that contained the aforementioned attributes. By comparing the importance of supportive and oversight activities it is discerned whether social entrepreneurs primarily perceive a value-add provided by SVC investors or whether they feel rather constrained by them on a non-financial level.

Results suggest that reputation is the most important criterion for judging investor attractiveness, accounting for 31.5% of the overall assessment. In addition, support via business advisory (23.4%) and network access (27.8%) has a strong positive effect on the assessment while there is only a minor negative effect regarding oversight via information rights (3.4%) and control rights (14.0%). It is concluded that social entrepreneurs perceive the behavior of their investors to be more steward-like than principal-like because supportive involvement is judged as a lot more important than oversight activities. In addition, results show that experience has an impact on the overall assessment: more experienced social entrepreneurs put a stronger focus on the reputation of the investor, whereas business advisory services are perceived as more important by more novice social entrepreneurs.

By focusing on the entrepreneur's point of view instead of the investor's, research on the relationship between investor and investee is advanced. In traditional entrepreneurship literature, research from the entrepreneur's perspective has also been quite limited (Drover et al., 2013). In addition, this essay expands the literature on the relationship between SVC investors and social entrepreneurs by embedding the findings of the study within the theoretical context of agency theory and stewardship theory.[44] Furthermore, the study contributes to a deepening of our understanding of the SVC investment model. By capturing the assessment of non-financial features from the perspective of social entrepreneurs, the behavior of SVC investors is observed indirectly. Results suggest that there are certain differences in the approaches applied by SVC investors and VC investors as their non-financial features are perceived differently by portfolio companies. In a similar study with business entrepreneurs, Valliere and Peterson (2007) show that oversight activities, expressed via terms and conditions, are the most important factors for assessing investor attractiveness, followed by reputation. Supportive involvement via value-added services only has a minor positive impact on the assessment of investor attractiveness. The rank ordering is completely reversed in the presented study in which support and reputation are perceived as a lot more important than oversight.

The findings are also useful from a practitioner's perspective. The study provides a guideline concerning attributes that social entrepreneurs should consider when seeking funds by SVC investors. SVC investors could employ the findings to identify sources of differentiation to render themselves more attractive to social entrepreneurs. This would be relevant once the balance of power is reversed and fund-pitching replaces fundraising as suggested by Oldenburg (2012b). Overall, the results support the claim that the SVC investment approach fits the needs of social enterprises quite well (Buckland et al., 2013).

[44] See Arthurs and Busenitz (2003) for an assessment of the relationship between VC investors and entrepreneurs based on agency theory and stewardship theory.

Future research could provide a more fine-grained analysis of the attributes analyzed. Business advisory could, for instance, be split into strategic, human resource, financial, accounting, and legal advice. Also, future research could address the question whether social entrepreneurs benefit from the active involvement of SVC investors in pursuing their social mission while simultaneously striving for financial sustainability. Therefor, scholars could analyze the actual behavior and involvement of SVC investors during the investment phase and capture the benefits received. Analyzing the true behavior of SVC investors would also answer the question whether the relationship between SVC investors and social enterprises indeed corresponds with what is predicted by stewardship theory. Another area for future research would be to analyze contingent factors upon which the style of the relationship between investor and investee is dependent on. This might be linked to findings of the first essay. Does the investor, for instance, behave more steward-like than principal-like if the social entrepreneur voluntarily signals high accountability? Scarlata and Alemany (2012), e.g., provide evidence that contractual agreements of SVC investors differ with regard to the legal form employed by the funded social enterprise. It would also be interesting to analyze the style of the relationship dependent on the return expectations of SVC investors: do SVC investors act, for instance, more restrictively if they have higher financial return expectations?

It is noteworthy, that both essays identified reputation as the most important criterion for evaluating integrity of a social entrepreneur as well as for evaluating investor attractiveness. The added value that a high reputation provides could have several explanations. First, reputation could be a factor for building up swift trust. Swift trust refers to a leap of faith that is granted upfront when there is no opportunity to build up trust over time (Meyerson et al., 1996). Swift trust might come into effect in the case of an investment decision, because there is no possibility of building up trust via an evidence-driven information process. A high reputation could be a signal of trustworthiness in this context. Second, reputation can serve as collateral (Handy, 1995). The reputation of the investor could, for instance, be transferred to its portfolio companies guaranteeing for the quality of the investees. Thus, an association with a highly reputable investor increases the reputation of the associated party. This might open up important networking opportunities. Third, reputation might replace hard facts that cannot be assessed in the social investment context due to difficulties in performance measurement. Future research should analyze the rationale for the high importance of reputation. It should also be analyzed whether reputation is linked to the success of a social enterprise or a SVC investor.

The *third essay* analyzes governance structures and functions of social enterprises. The hybrid nature of social enterprises, which is expressed in their positioning at the interstices of the business and social sectors, is explicitly taken into account. How social enterprises balance and combine common behaviors from both sectors is analyzed with regard to attributes and practices of their governing boards. In particular, board membership, board size and board influence are studied. A survey was sent out to the entire population of fellows of the Schwab Foundation for Social Entrepreneurship. Differences in board attributes and practices between three categories of organizational models (for-profit, intermediate, and non-profit)[45] towards which social enterprises self-select, were analyzed.

Results of the survey, in which 70 social enterprises participated, suggest meaningful distinctions among the organizations within the sample. Those social enterprises that identify strongly with either the business sector or the social sector adopt principles on how to govern that are common for the respective sector. Social enterprises that categorize themselves as for-profit behave similarly to organizations from the business sector. They frequently grant board

[45] It is important to note that these categories do not relate to any legal form in particular.

membership to capital providers, have rather small boards and include their boards in financial and strategic decisions on a frequent basis. Social enterprises that self-identify with the non-profit category adopt common sets of behaviors from the social sector. They frequently include members of their target group on their boards, have rather large boards and grant their board members limited decision-making power. For-profit as well as non-profit social enterprises seem to perceive conflicts due to their dualistic organizational identity and in response prioritize a 'dominant' set of behaviors. They are labeled as 'conforming hybrid organizations' as they conform to habits of a particular organizational field. In contrast, social enterprises that classify themselves as intermediate resist prioritizing one set of behaviors over the other in their approach towards governance. They defy and selectively couple elements from both sectors and in addition, innovate by adopting new governance practices that are neither characteristic for the business sector nor the social sector. They do not include capital providers nor members of their target group on a frequent basis on their boards (defiance), have rather large boards (selective coupling) and grant board members decision-making power on financial, strategic (selective coupling) and human resource (innovation) decisions. These social enterprises are labeled as 'dissenting hybrid organizations'.

The findings advance existing research in three major ways. First, theoretical insights into social enterprises as a prominent example of hybrid organizations (Billis, 2010a) are provided. Findings suggest an important distinction between conforming social enterprises that adopt existing organizing principles and dissenting social enterprises that question existing arrangements and create novel approaches. One could speculate that some social enterprises – the conforming ones – might assume hybridity for symbolic reasons in an effort to expand the scope of their external legitimacy. Other social enterprises – the dissenting ones – might adopt hybridity rather for substantive reasons to experiment with new ways of organizing. Second, the study provides substantive evidence that social enterprises do not adopt a uniform way of organizing and thereby contributes to studies examining the landscape of social enterprises (Mair et al., 2012). Third, research on organizational governance is advanced – in particular, research on sectorial differences of governing boards (Cornforth, 2003; Rousseau & Fried, 2001).

The heterogeneity that is uncovered within the studied sample of social enterprises is of relevance to practitioners as well. Financial resource providers might analyze the organizational category before an investment decision to detect whether hybridity is applied for symbolic or for substantive reasons. If they aim to foster innovation they should focus on dissenting social enterprises. Policy makers could use the findings when carving out new regulations and legal forms for social enterprises. They might consult organizational arrangements of dissenting social enterprises, as they seem to employ out of the box thinking where existing regulatory frameworks might be too constrictive. Social entrepreneurs need to be aware of the features that come along with the distinct organizational forms. The study revealed some of the intricacies which social entrepreneurs might consider while determining the form that suits their approach best. They need to be aware that form should follow function and not the other way around (Sabeti, 2009).

Further research is needed to better understand innovation in dissenting social enterprises. This would contribute to a better understanding of when and why social enterprises defy common sets of behaviors of existing organizational fields, partly combine sets of behaviors or innovate. Therefore, further aspects of organizational practices would need to be analyzed such as leadership styles or scaling strategies. Such studies would also enhance the understanding of distinguishing between conforming and dissenting social enterprises and answer the question whether this distinction represents a robust typology. In addition, future research should tackle the behavior of social enterprises over time to detect lifecycle-specific processes and dynamics. It would, for instance, be interesting to analyze whether and when social enterprises shift from a dissenting to a conforming mode, and vice versa.

As a final note, it should be pointed out that issues in the social entrepreneurship domain will continue to excite a large number of researchers – for a good reason: social enterprises transcend sectorial boundaries and thereby challenge the sufficiency of existing theories. A better understanding of the conditions under which they can successfully sustain their hybrid nature, as well as the conditions under which mission drift or entrepreneurial failure are likely to occur, is needed. To pick up on the two-sided valley picture from the introductory section (see Figure 1-1): scholars need to identify characteristics of social enterprises that persist at the top of the peak and differentiate those from the ones that slide into either one of the neighboring valleys.

3.2 Outlook

This dissertation tackles questions regarding the relationship between SVC investors and social enterprises. In addition, the relation between the organizational model of social enterprises and their approach towards governance is analyzed. In this final section, the bigger picture is taken in mind by matching the status quo of the social entrepreneurship field with the status quo of the social investment arena.

It is frequently criticized that many social enterprises remain small and do not scale their approaches.[46] In this context, their innovativeness as well as entrepreneurial nature is called into question (Täubner, 2013). Funding constitutes a major hurdle for the growth of social enterprises and the scaling of their approaches. In a survey from the UK access to finance was mentioned as the major barrier for sustainability and/or growth of the participating social enterprises (Social Enterprise UK, 2011). A similar survey among 208 social enterprises in Germany also detected missing funding as the biggest impediment for early stage social enterprises (Scheuerle & Schmitz, 2011). Those findings indicate that the demand for capital is not met.

This is surprising, as there seems to be a large pool of capital willing to invest in social enterprises. A social finance sector has emerged that is comprised of value banks, social stock exchanges, SVC funds, and impact investment funds (Achleitner et al., 2011b). Impact investment funds[47] especially seem to attract considerable amounts of capital. Lately, several

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[46] More than 50% of the social enterprises that participated in a German study generate less than €25.000 per year and are only locally active (Scheuerle et al., 2013). In the UK, most social enterprises operate as well only on a local level: only 19% work on a national or international level (Social Enterprise UK, 2011). In the US, social enterprises are often rather small as well: around 40% have fewer than five employees and 45% earn less then $250.000 (Thornley, 2012).

[47] Impact investing is defined as „actively placing capital in enterprises that generate social or environmental goods, services, or ancillary benefits such as creating good jobs, with expected financial returns ranging from the highly concessionary to above market” (Brest & Kelly, 2013, p. 24); see also, Bridges Ventures and Parthenon Group (2010) and Freireich and Fulton (2009).

banks have launched impact investment funds (Deutsche Bank, 2011; Gosling, 2013) and recent studies estimate that the market will exceed $500 billion up to $1 trillion in the next decade (Freireich & Fulton, 2009; O'Donohoe et al., 2010; Saltuk et al., 2013). However, it seems that impact investors do not find sufficient investment targets. The most critical challenge of the market from their perspective is a lack of appropriate investment opportunities (Achwal, 2011; Saltuk, El Idrissi, Bouri, Mudaliar & Schiff, 2014) .

Thus, there seems to be a need for capital on the demand side and a reasonable level of interest on the supply side, but paradoxically demand and supply do not match. There are several reasons for this mismatch. First, investors are concerned about the investment readiness of social enterprises, which often lack basic documents such as business plans or do not have established internal structures (Boyce, 2013; GHK, in press). Second, the majority of impact investors are targeting competitive market rate returns (Saltuk et al., 2014), which are mostly only attainable by investing in mature, later stage social enterprises (Milligan & Schöning, 2011). However, the majority of social enterprises are currently situated at an earlier stage of their enterprises' lifecycle in which patient growth capital is needed and financial returns are below market rate (Milligan & Schöning, 2011). Thus, one could currently speak of an overreaction of the impact investing market similar to boom cycles in the VC industry when money is chasing deals instead of the other way round (Achleitner, Engel, & Reiner, 2013; Gompers & Lerner, 2000). Third, different types of capital providers in the social investment arena do not have approaches that match well with one another due to divergent return expectations, making it hard for social enterprises to find follow-up funding or to diversify their funding structure (Achleitner, Spiess-Knafl, et al., 2014; Spiess-Knafl & Jansen, 2013). Fourth, social investors and social enterprises seem to lack a deep understanding of the requirements of the respective other as both mainly have evolved separately in different spheres of society and therefore, often speak different languages (Achleitner et al., 2011b; Deutsche Bank, 2012; Wade, 2012).

To move forward, social entrepreneurs as well as social investors need to adapt. Social entrepreneurs need to work on their investment readiness. For instance, they need to refine their business plans, to establish internal structures, and to apply thorough performance measurement on financial as well as social indicators. In addition, social enterprises need to establish structures and functions that enable them to pursue a hybrid value chain over the long term. This is challenging because large parts of their ecosystem are organized to support more conventional organizational forms, with business sector organizations on the one side, and social sector organizations on the other. In this context, governance arrangements are crucial to safeguard a social enterprise's mission consisting of social and financial return aspirations.[48]

Investors need to adapt to the capital needs of social enterprises. First of all, a better understanding of the financing lifecycle of social enterprises is needed.[49] In their early stages, social enterprises need grant capital by foundations or individuals. To grow social enterprises and scale their approaches hybrid capital might be appropriate. Hybrid capital consists of a combination of grant, equity, and debt capital and allows for extensive risk sharing with the investor (Achleitner et al., 2011b). Impact investors do not get into play until rather mature stages. Hence, to develop a pipeline of appropriate investment targets, there needs to be vertical collaboration among capital providers over the lifecycle of social enterprises. Impact investors, for instance, need to collaborate with capital providers dedicated to developing earlier stage organizations. Those are often philanthropists that could, for instance, provide

[48] See Schöning and Noble (2012) for the importance of governance to form impact investment relationships.

[49] See Berger and Udell (1998) for an assessment of the funding lifecycle of business enterprises.

investment readiness grants (Oldenburg, 2012a). In addition, horizontal collaboration among capital providers might be a mechanism to develop financing instruments that fit the particular needs of social enterprises (e.g., hybrid instruments). Capital providers with differing return expectations and willingness to take on risks could pool their capital, e.g., via securitization by establishing several tranches of an investment that offer different classes of social and financial returns and risks (Huppé & Silva, 2013). Thus, capital providers need to move forward by bridging the divide between traditional sectors and by breaking up silo approaches with grant funding on the one side and investment capital on the other (Bugg-Levine, 2013).

Concluding, the expected growth in the social investment arena is promising, if social enterprises manage to navigate successfully in the tense field of simultaneously pursuing social and financial value creation and if investment strategies are adjusted to better fit the needs of social enterprises. Scholarship will play an important role in critically assessing current and future developments, in detecting best-practice models, and in highlighting deficiencies. Social entrepreneurship and social investment are areas in which criticism is neither common nor very welcome (Edwards, 2010) because both approaches seem to have already passed the test of critical scrutiny without even challenging their assumptions as they inherently bear the positive in mind (Dey & Steyaert, 2012). In domains where passionate adherents disseminate “convincing rhetoric” (B. B. Anderson & Dees, 2006, p. 145), rigorous research is crucial to sort rhetoric from reality.

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